

Department of Children's Services

**For the Year Ended
June 30, 1998**

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June 23, 1999

The Honorable Don Sundquist, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable George Hattaway, Commissioner
Department of Children's Services
Cordell Hull Building, Seventh Floor
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a financial and compliance audit of selected programs and activities of the Department of Children's Services for the year ended June 30, 1998.

We conducted our audit in accordance with generally accepted auditing standards and the standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. These standards require that we obtain an understanding of management controls relevant to the audit and that we design the audit to provide reasonable assurance of the department's compliance with the provisions of laws, regulations, contracts, and grants significant to the audit. Management of the Department of Children's Services is responsible for establishing and maintaining internal control and for complying with applicable laws and regulations.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. The department's administration has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

We have reported other less significant matters involving the department's internal control and/or instances of noncompliance to the Department of Children's Services management in a separate letter.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/rm
98/113

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Department of Children's Services
For the Year Ended June 30, 1998

AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 1997, through June 30, 1998. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1998, and the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of information systems, trust funds, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

The Department of Children's Services' management has been ineffective and has failed to correct the many serious problems noted in prior audits*

The prior audit report on the Department of Children's Services stated that the overall accounting controls and procedures of the department needed significant improvement, and that the Commissioner should determine if the leadership of the Fiscal and Information Systems Division is capable of correcting the many significant problems noted in the department's fiscal operations. However, the department's organizational structure and the assignment of authority and responsibility in the Fiscal and Information Systems Division remain unchanged and continue to be ineffective. Management of the department has not made any significant improvements in their accounting controls or procedures. In addition, some of the new findings noted in this report indicate that management may have had a lack of regard for compliance with federal regulations. The findings listed below illustrate the extent of the problem (page 5).

Federal guidelines were not understood or disregarded when equipment was purchased with Title IV-E funds, which resulted in \$11,977,359 in questioned costs

During the years 1996 through 1998, the department did not comply with federal regulations when purchasing equipment to develop a Statewide Automated Child Welfare Information System (SACWIS) under Title IV-E Foster Care. Because of the many noted instances of noncompliance with the Title IV-E SACWIS regulations, it appears that management either does

not have a clear understanding of the regulations, or has chosen to disregard them. The seriousness of this weakness in internal controls will be reported as a material weakness in the 1998 Tennessee Single Audit Report. Because of the material noncompliance by the department with the SACWIS regulations, the report on compliance for Title IV-E Foster Care will be qualified, and a total of \$11,977,359 will be included in the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report (page 9).

Purchasing procedures circumvented and no internal controls in place during the purchasing and installation of federally funded equipment

State purchasing procedures were circumvented when the department purchased \$11,013,744.31 of equipment with federal funds. In addition, the department had no internal controls in place during the purchasing and installation of the equipment. Review of purchase orders and corresponding invoices shows that equipment was ordered and/or received before purchase orders were generated or approved (page 14).

No reasonable system exists to determine medical treatment costs associated with providing services to children in the state's care

The department does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs. The seriousness of TennCare's failure to ensure that these billings complied with all federal laws, regulations, and guidelines was reported as a Department of Health material internal control weakness in the 1998 Tennessee Single Audit report (page 16).

Journal vouchers not processed timely**

The department prepares journal vouchers to record expenditure and revenue transactions between the department and other state agencies. However, the department does not always process these journal vouchers promptly. The department did not bill TennCare for services rendered by Children's Services, totaling \$22,982,172.06, from July 1, 1997, through March 31, 1998, until August 20, 1998, as much as twelve months after the initial expenditure was incurred. Because TennCare bills the federal government for approximately 50% (federal share) of these expenditures, the state lost approximately \$419,000 in interest on these funds (page 18).

Fraud not reported to the Comptroller of the Treasury immediately, as required by law

The department did not report an instance of employee fraud to the Comptroller of the Treasury as required by state law (page 20).

Disciplinary issues not resolved in a timely manner, resulting in federal funds being misused

The department did not resolve disciplinary issues in a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into

alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or dismiss the employee (page 21).

Children's Services inappropriately requested and received reimbursement from TennCare for children in Children's Services locked facilities*

As noted in the prior audit, Children's Services requested and received reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities (page 22).

Subrecipient monitoring system inadequate

The department did not have all monitoring reports and did not examine audit reports as part of the monitoring process for its subrecipients. The department has contracted with the Department of Finance and Administration (F&A) to perform monitoring of the department's subrecipients. However, no one in the department has been reviewing the monitoring reports, approving corrective action plans submitted by the subrecipients, or taking any further action that may be deemed necessary by the program specialists (page 24).

No formal procedures for identifying and collecting overpayments—outstanding overpayments of at least \$1,225,133.76 made to foster parents and adoption assistance parents and vendors**

Children's Services still has uncollected overpayments due from foster care parents and adoption assistance parents, as well as indeterminable vendor overpayments. As of June 1998, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,225,133.76, a decrease of only \$49,307.36 (3.9%) since August 1997. The department attempted to write-off \$287,254.32 of uncollectible foster care payments. However, this request was denied because of the department's failure to follow proper procedures (page 25).

Duplicate payments of approximately \$185,000 made to vendors**

The department issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling \$101,700 and returned 305 original checks totaling \$83,300 (page 28).

Major medical vendor invoices not approved before payment was made, resulting in a voluntary refund of \$281,145.47 from a major medical vendor**

Children's Services did not adequately review the four major medical vendors' invoices for appropriateness, and these payments were not appropriately authorized by a state official. The only signature on an invoice was generally that of the physician, counselor, or nurse providing the service. In addition, the department received refund payments totaling \$281,145.47 from one of its major medical vendors. However, the department has not reimbursed TennCare for the portion of the refunded amount it paid (page 30).

Status changes for foster children still not processed promptly**

Caseworkers did not update the Children's Plan Financial Information System (ChipFins) in a timely manner when changes in placement status for foster children occurred, resulting in overpayments (page 31).

Controls over disbursements still weak**

The department did not have sufficient controls to ensure that disbursements were properly processed. Problems included lack of supporting documentation and insufficient approval (page 33).

Location of children and child-specific case and eligibility files not provided timely

The department could not determine the location of children and their specific case and eligibility files within a reasonable amount of time. The request for 75 case files for children receiving Title IV-E funds was made on August 3, 1998. It was six weeks later before all locations were provided; eight of the 75 locations provided (10.66%) were incorrect (page 35).

Deferred revenue not transferred timely**

Some items were not promptly researched and transferred from the deferred revenue account. Twenty-four of 63 items tested were not transferred to the appropriate accounts until 140 to 547 days following receipt. In addition, some items were incorrectly deposited into deferred revenue. These items included child support payments and checks to other departments (page 36).

Signature authorization forms were not properly approved

Not all signature authorization forms for the Department of Children's Services on file at the Division of Accounts were approved by the commissioner. Specifically, at the youth development centers employees other than the commissioner approved the signature authorization forms, thereby approving themselves and others to sign as the commissioner (page 37).

Improper employer-employee relationships created

The Department of Children's Services has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Service Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. These contracts appear to create "employer-employee" relationships between the department and these individuals (page 38).

The department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits

The department did not maintain proper control over or accounting for the trust fund accounts for children in state custody. There are no formal written procedures governing trust fund accounting. The department did not refund money to the Social Security Administration in a timely manner. Four of ten trust fund accounts tested for the audit period had errors noted in them. Eleven of 60 trust fund transactions tested were not properly accounted for in the child's trust account (page 41).

Accounting for the Social Security Administration Trust Funds not done monthly for each child*

The SSI payments received and the expenses paid by the state for the child are not recorded monthly in each child's trust fund account. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care. In one example, the state used \$2,645.66 of state funds to pay for current expenses of the child's care when SSI funds could have been used (page 44).

Computer programming controls not adequate**

Current programs used by the department allow a single user to modify the program, manipulate files, enter data, and prepare reports. Management concurred with each of the prior audits and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system (page 46).

TnKids System Not Implemented and Data Integrity and User Accountability Not Ensured With Client Operation and Review System**

The new TnKids computer system has not been implemented and the CORS system currently in place still does not ensure data integrity and user accountability. In addition, eight of 65 master index summaries in CORS indicated incorrect placement history, and three of 61 children could not be located in CORS (page 47).

Children's Services' disaster contingency planning needs improvement**

Children's Services does not have a contingency plan to provide continuity of administrative, clerical, and operational functions should its office and related work areas be damaged or destroyed (page 50).

Appropriate grants not charged at the time the initial transaction is recorded*

The department pays expenditures with state dollars and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds (page 51).

* This finding is repeated from the prior audit.

** This finding is repeated from prior audits.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report which contains all findings, recommendations, and management comments, please contact

Comptroller of the Treasury, Division of State Audit
1500 James K. Polk Building, Nashville, TN 37243-0264
(615) 741-3697

Audit Report
Department of Children's Services
For the Year Ended June 30, 1998

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Department of Children's Services For the Year Ended June 30, 1998

INTRODUCTION

POST-AUDIT AUTHORITY

This is the report on the financial and compliance audit of the Department of Children's Services. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to "perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller."

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

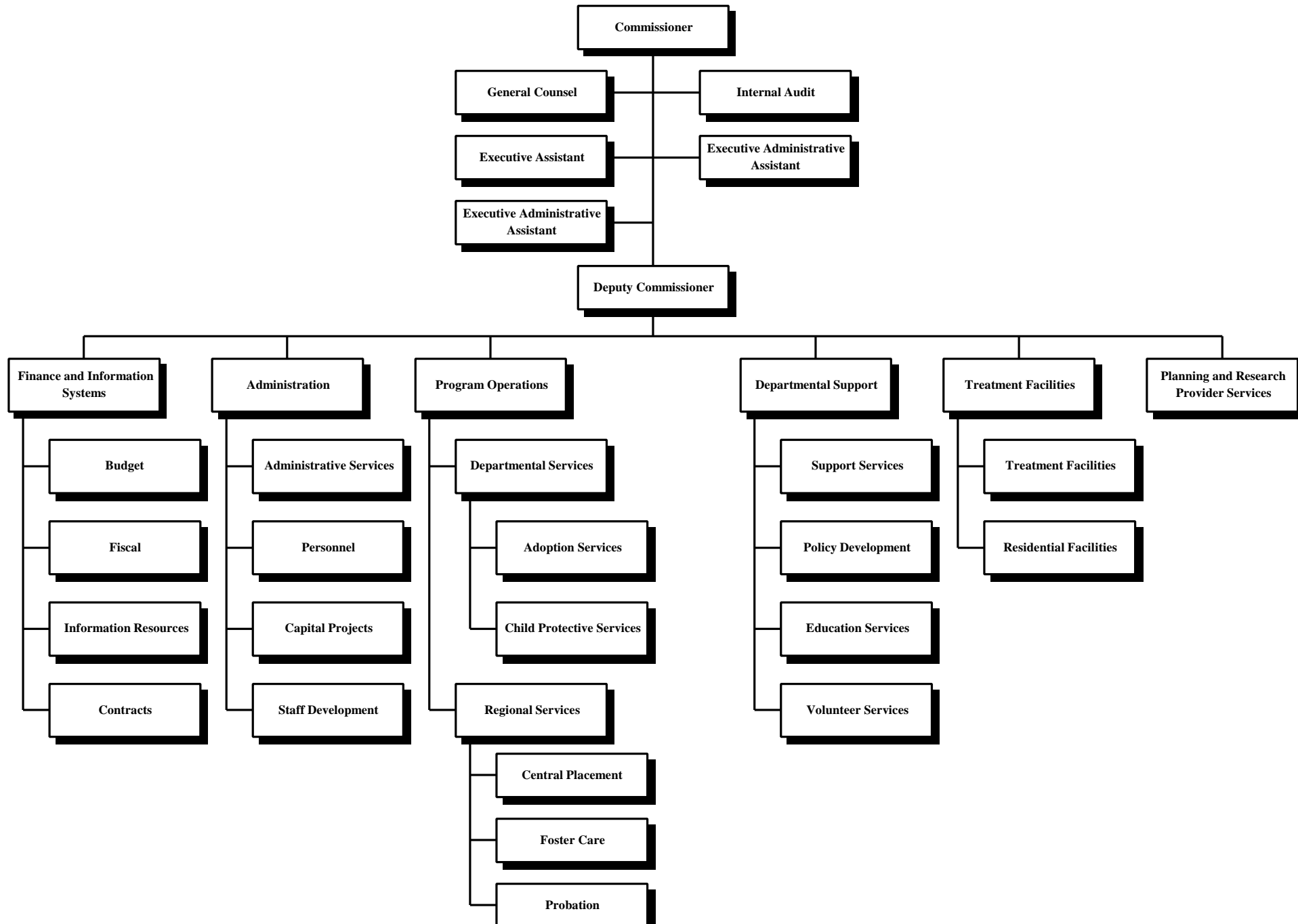
BACKGROUND

The Department of Children's Services was created by the 1996 Public Acts Chapter 1079 on May 21, 1996. The former Department of Youth Development and the Department of Finance and Administration's Office of Children's Services Administration were combined along with certain functions from the Departments of Human Services and Health concerning the welfare of children.

The mission of the Department of Children's Services is to provide services to children who are unruly, delinquent, dependent, and neglected and to their respective families, as well as to provide services to children who are at imminent risk and in need of services to prevent entry into state custody, who are in state custody pending family reunification or other permanent placement, or who otherwise may require services pursuant to state law. The focus of the services is to preserve the relationship between the child and the family by providing, whenever possible, services in the child's community and by providing the services in a setting which is the least restrictive and yet the most beneficial. The department works to combat delinquency and other social ills concerning young people and to continuously improve the management and coordination of services for children and families.

An organization chart of the department is on the following page.

Department of Children's Services



AUDIT SCOPE

We have audited the Department of Children's Services for the period July 1, 1997, through June 30, 1998. Our audit scope included those areas material to the Tennessee Comprehensive Annual Financial Report for the year ended June 30, 1998, and to the Tennessee Single Audit Report for the same period. In addition to those areas, our primary focus was on management's controls and compliance with policies, procedures, laws, and regulations in the areas of information systems, trust funds, and utilization of the Department of Finance and Administration's STARS grant module to record the receipt and expenditure of federal funds. The audit was conducted in accordance with generally accepted government auditing standards.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendations in the prior audit report. The Department of Children's Services filed its report with the Department of Audit on January 4, 1998. A follow-up of all prior audit findings was conducted as part of the current audit.

RESOLVED AUDIT FINDINGS

The current audit disclosed that the Department of Children's Services has corrected previous audit findings concerning (a.) procedures related to funding payments with Title IV-E grant funds and (b.) insufficient evidence to support compliance with period-of-availability requirements for the Social Services Block Grant.

REPEATED AUDIT FINDINGS

The prior audit report also contained findings concerning:

- need for significant improvement of overall accounting controls
- duplicate payments to vendors,
- lack of formal procedures for collecting overpayments,
- inadequate controls over medical payments,
- weak controls over disbursements,
- untimely processing of status changes for foster care children,

- prompt processing of journal vouchers,
- untimely transfer of revenue from deferred revenue,
- incomplete reconciliation of the Social Security Administration trust fund accounts to accounting records,
- inadequate controls over computer programming and payment processing functions,
- accounting for the Social Security Administration trust funds not done monthly,
- inadequate data integrity and user accountability controls over the Client Operation and Review System,
- inadequate disaster contingency planning, and
- appropriate grants not charged when initial transaction recorded.

These findings have not been resolved and are repeated in the applicable sections of this report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

AREAS RELATED TO TENNESSEE’S COMPREHENSIVE ANNUAL FINANCIAL REPORT AND SINGLE AUDIT REPORT

Our audit of the Department of Children’s Services is an integral part of our annual audit of the Comprehensive Annual Financial Report (CAFR). The objective of the audit of the CAFR is to render an opinion on the State of Tennessee’s general-purpose financial statements. As part of our audit of the CAFR, we are required to gain an understanding of the state’s internal controls and determine whether the state complied with laws and regulations that have a material effect on the state’s general-purpose financial statements.

Our audit of the Department of Children’s Services is also an integral part of the Tennessee Single Audit, which is conducted in accordance with the Single Audit Act, as amended by the Single Audit Act Amendments of 1996. The Single Audit Act, as amended, requires us to determine whether

- the state complied with rules and regulations that may have a material effect on each major federal financial assistance program, and
- the state has internal controls to provide reasonable assurance that it is managing its major federal award programs in compliance with applicable laws and regulations.

We determined the following areas within the Department of Children’s Services were material to the CAFR and to the Single Audit Report: accounts receivable, contingent and deferred revenue, Social Services Block Grant (SSBG), Foster Care/Adoption Assistance (Title

IV-E), and TennCare. The audit work for TennCare was done as a part of the Department of Health audit.

To address the objectives of the audit of the CAFR and the Single Audit Report, as they pertain to these two major federal award programs, we interviewed key department employees, reviewed applicable policies and procedures, and tested representative samples of transactions.

We have audited the general-purpose financial statements of the State of Tennessee for the year ended June 30, 1998, and have issued our report thereon dated January 25, 1999. The opinion on the financial statements is qualified. Because of the unprecedented nature of the Year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the Year 2000 and thereafter. The Tennessee Single Audit Report for the year ended June 30, 1998, will include our reports on the schedule of expenditures of federal awards and on internal control and compliance with laws and regulations.

We determined that the department's management has been ineffective and has failed to correct the many serious problems noted in prior audits, as evidenced by the fourteen repeat findings and the ten new findings included in this report. The findings include the following problems:

- Material federal noncompliance
- Large amounts of questioned costs
- Lack of internal controls in many areas
- Noncompliance with state laws, policies and procedures
- Overpayments and non-collection of accounts receivables
- Improper accounting and fiscal responsibility for trust funds
- Inadequate computer programs and systems

In addition to the findings, other minor weaknesses came to our attention that have been reported to management in a separate letter.

1. The Department of Children's Services' management has been ineffective and has failed to correct the many serious problems noted in prior audits

Finding

The prior audit report on the Department of Children's Services stated that the overall accounting controls and procedures of the department needed significant improvement, and that the Commissioner should determine if the leadership of the Fiscal and Information Systems Division is capable of correcting the many significant problems noted in the department's fiscal operations. However, the department's organizational structure and the assignment of authority and responsibility in the Fiscal and Information Systems Division remain unchanged and continue to be ineffective. Management of the department has not made any significant improvements in their accounting controls or procedures. In addition, some of the new findings noted in this report indicate that management may have had a lack of regard for compliance with federal

regulations. In the prior report, management commented that some of the problems were inherited from previous years and they could not be addressed due to the restructuring of the new department. However, the Commissioner made no changes to the Division of Fiscal and Information Systems management, which has been in place for over three years. They also stated that the newly created internal audit division would monitor the fiscal division's operations. The internal audit division has been monitoring the department's operations and pointing out problems, but management has not adequately addressed the problem areas to ensure that they are corrected. Management's prior comments also stated that they would address the areas noted in the audit report as quickly as possible. Many of the problems noted would take more than a "quick fix;" however, it does not appear that management has taken steps necessary to address even the areas that will not require significant changes in the department's processes.

Also, the department is relying on the implementation of the new TnKids system to correct many of the problems noted in this and prior reports. However, the new system will not correct all of the problems because some of the problems are dependent on management implementing and enforcing internal controls. Many of the problems are financial in nature and the financial management component of TnKids has not been approved by the department's Management Advisory Committee, which means there is no timetable for the design or implementation of the financial component of the system.

Findings two and three in this report point out management's apparent lack of knowledge of federal regulations or their total disregard for them. Because of this and the department's lack of accountability for equipment purchased with federal funds, the compliance opinion on Foster Care IV-E will be qualified and \$11,977,359 in federal dollars will be questioned. Because of their seriousness, nine of the findings in this report will be reported as material weaknesses in internal control in the 1998 Tennessee Single Audit Report.

In addition to these two findings, there are eight other new findings in this report. These findings consist of the following weaknesses:

- Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care (finding 4).
- As required by law, fraud should be reported to the Comptroller of the Treasury immediately (finding 6).
- Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay (finding 7).
- Children's Services' subrecipient monitoring system is inadequate (finding 9).
- The department could not determine the location of children and their specific case and eligibility files in a reasonable period of time (finding 15).
- Signature authorization forms were not properly approved (finding 17).
- The department has established improper employer-employee relationships (finding 18).

- The department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits (finding 19).

Because the Commissioner has failed to create proper internal controls and address the department's operational and internal control weaknesses, thirteen findings have been repeated from prior years.

The five findings that have been included in four previous audits, covering the period July 1, 1993, to June 30, 1997, are as follows:

- Since 1993 Children's Services still fails to collect overpayments; uncollected overpayments totaling at least \$1,225,133.76 are due from foster care and adoption assistance parents, and overpayments to other vendors are not determinable (finding 10).
- The department continues to issue duplicate payments and overpayments to vendors; \$185,288.52 was returned or refunded voluntarily by vendors (finding 11).
- The department did not approve invoices of major medical vendors before payment was made, resulting in a voluntary \$281,145.47 refund from a major medical vendor (finding 12).
- Status changes for foster children are still not processed promptly (finding 13).
- Controls over disbursements were still weak (finding 14).

The four findings that have been included in three previous audits, covering the period July 1, 1994, to June 30, 1997, are as follows:

- Controls over computer programming used for payment processing are not adequate (finding 21).
- The new TnKids computer system has not been implemented and the Client Operation and Review System currently in place still does not ensure data integrity and user accountability (finding 22).
- Children's Services' disaster contingency plan needs improvement (finding 23).
- The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made (finding 24).

The two findings that have been included in two previous audits, covering the period July 1, 1995, to June 30, 1997, are as follows:

- The department did not process journal vouchers promptly which resulted in approximately \$419,000 in lost interest income (finding 5).
- Revenue is not researched and transferred from deferred revenue in a timely manner (finding 16).

The two findings that have been included in one previous audit, covering the period July 1, 1996, to June 30, 1997, are as follows:

- Children's Services inappropriately requested and received reimbursement from TennCare for children in Children's Services locked facilities (finding 8).
- Accounting for the Social Security Administration trust funds is not done monthly for each child (finding 20).

The department resolved two of the prior findings during this audit period, and one prior finding has been combined with a new finding.

Based on the number of repeat findings and the increase in new findings, it appears that the Commissioner, the Assistant Commissioner for Fiscal and Information Systems, and others have not recognized the seriousness of all the findings.

The department's inability to adequately manage its fiscal operation has resulted in a qualified opinion of the Foster Care Title IV-E federal program, the loss and mismanagement of state funds, the potential return of improperly used federal funds, the lack of accountability for state property, and the potential for abuse by vendors.

Without a commitment to strong internal controls, management and the public cannot be assured of the effectiveness and efficiency of operations, reliability of financial reporting, and compliance with applicable laws and regulations. The Commissioner is ultimately responsible for the department's system of internal controls and should set the tone at the top, as it affects the integrity of the control environment.

Recommendation

Many of the findings deal with the misuse of federal funds. The Commissioner should ensure individuals placed in leadership positions have the necessary understanding of federal guidelines and demonstrate a willingness to follow them; should determine why the leadership in the Fiscal and Information Systems Division has not implemented the necessary policies and procedures to correct the many problems noted in the prior audit reports; and, as recommended in the prior audit report, should evaluate whether the leadership of the Fiscal and Information Systems Division has the basic accounting knowledge and understanding of internal control structures necessary to correct the many significant problems noted in the department's fiscal operations. Once this evaluation is performed, the Commissioner should ensure that plans of action are developed immediately to implement the recommendations in this report. Responsibility for the many problems noted in this report should not be shifted down to personnel below the management level. These problems could not continue to exist and develop if management were performing effectively. The Commissioner and the internal audit unit should frequently monitor the activities of the individuals responsible for correcting the problems, determine whether progress is being made, and take appropriate action if the problems are not corrected in accordance with the plans of action.

Management's Comment

We concur. The Commissioner of the Department of Children's Services has evaluated the leadership in the Fiscal and Information Resources Division. A significant change in leadership existing during the audit period has been accomplished through internal restructuring and other changes are being developed. The previous Director of Internal Audit has been promoted to the Assistant Commissioner of Fiscal and Information Resources position and the Comptroller's representative in-charge of the last audit performed has been hired to fill the vacated Director of Internal Audit position. The Commissioner and Deputy Commissioner of the department are committed to the resolution of the existing problems. Addressing so many serious problems can only be correctly accomplished with careful analysis of weaknesses in the processing and controls structure of the department which were in place during the audit period. The audit is a road map to the problems listed but additional detailed analysis will be necessary. The new Assistant Commissioner has begun the detailed analysis of what steps must be taken to make the necessary corrections. When the new Director of Internal Audit has assumed that role these two positions will work in conjunction to begin moving the department forward. This process will continue until the resolution of corrective actions required to make the department an effective yet efficient operation are complete. Progress toward this goal will be monitored by the Assistant Commissioner and reported to the Commissioner and Deputy Commissioner on a regular basis.

2. The department did not understand or chose to disregard federal guidelines when purchasing equipment with Foster Care Title IV-E funds, which has resulted in \$11,977,359 in questioned costs

Finding

During the years 1996 through 1998, the department did not comply with federal regulations when purchasing equipment to develop a Statewide Automated Child Welfare Information Systems (SACWIS) under Title IV-E Foster Care. Because of the many noted instances of noncompliance with the Title IV-E SACWIS regulations, it appears management either does not have a clear understanding of the regulations, or has chosen to disregard them. The seriousness of this weakness in internal controls will be reported as a material weakness in the 1998 Tennessee Single Audit Report. Because of the material noncompliance by the department with the SACWIS regulations, the report on compliance for Foster Care, Title IV-E will be qualified, and a total of \$11,977,359 will be included in the Schedule of Findings and Questioned Costs in the 1998 Tennessee Single Audit Report. The material instances of noncompliance by the department and the questioned costs are described below:

- a. When the department purchased equipment for its SACWIS system, it violated federal regulations and circumvented state purchasing procedures. In addition, as discussed in finding 3, the department did not have any internal controls in place during the purchasing and installation of the equipment. Because of the many federal noncompliance issues noted, the entire amount spent by the department for the purchase of the equipment, which totaled \$11,013,744, will be questioned. The specific noncompliance issues are as follows:

- The department did not cost allocate the use of the equipment at the time the equipment was purchased. The cost/benefit analysis included in the department's Advanced Planning Document, which was presented to the U.S. Department of Health and Human Services, misrepresented how the equipment purchased with Title IV-E funds was being used. The cost/benefit analysis shows that the program share of costs was 100% Title IV-E. However, from the outset the equipment was being used to support programs other than Titles IV-E and IV-B, such as Social Services Block Grant and juvenile justice activities. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-O1SM-001, page 10, section B states:

Equipment acquired solely to support the activities of State or contract staff administering the programs under the approved State plan under Title IV-B or IV-E may be charged to Title IV-E. Equipment which is acquired to support other individuals or programs must either be direct-charged to the other agency or program, or allocated among all appropriate funding sources, dependent upon whether the equipment is used partially for the programs under Titles IV-E or IV-B....

- Equipment purchased with Title IV-E funds was being used at the youth development centers. However, because children in these centers are not eligible for Titles IV-E or IV-B, equipment purchased with Title IV-E funds should not be used at these locations. Based on our review of the Property of the State of Tennessee System (POST) and information related to the equipment's funding, there are 327 equipment items purchased with Title IV-E funds at the youth development centers.
- The department purchased equipment up to two years in advance of its use to take advantage of an enhanced federal financial participation rate. When the equipment was purchased, it was stored in a warehouse prior to being installed across the state. As of December 1998, there was still some equipment stored at the warehouse which had been purchased between June and September 1996. This equipment has been stored in the warehouse for over two years without being used by the department. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-O1SM-001, page 4, states in part:

While we realize that many States have expressed great interest in acquiring hardware immediately to take better advantage of enhanced funding, it is not our intent to approve enhanced FFP for early installation of equipment that will not be utilized until the application software is complete, not to provide

enhanced funding solely for the installation of local office automation (hardware and software), which would normally be funded only at the regular FFP rate.

Based on discussions with warehouse management, the equipment consisted of approximately 23 personal computers, 12 computer monitors, four laptops, five laser printers and numerous mouse pads and surge protectors. Warehouse management has stated that some of these items, approximately three personal computers and all of the laptops, were labeled as “bad,” because they would not operate properly. However, the probability that these items can be returned to the vendor after such a long period is highly unlikely. Some of the equipment sent to the Community Services Agencies was sitting idle in boxes for up to a year and a half. Management stated this was because TnKids was not functional. Management also has stated that the equipment was purchased early for training purposes. However, it is our opinion that equipment stored in warehouses or sitting in boxes is clearly not being used for training purposes.

- b. The department requested the purchase of 19 computer servers by the Department of Finance and Administration, Office for Information Resources (OIR). Thirteen of the 19 servers (68.42%) were purchased early and were not in use during the audit period. This would be in violation of the ACF Action Transmittal No. ACF-O1SM-001, page 4 as quoted above. Although the servers were purchased by OIR, the department is charged depreciation costs over a five-year period. The department charged the depreciation to Title IV-E. The total questioned cost for this depreciation is \$514,163.
- c. The department charged expenditures at the enhanced federal financial participation rate that were not eligible to be paid at that rate. The difference between the enhanced rate (75%) and the regular rate (50%) resulted in \$449,452.61 in questioned costs. These expenditures consisted of maintenance and data processing, supplies, operational supplies, and professional and administrative services. U.S. Department of Health and Human Services, ACF Action Transmittal No. ACF-O1SM-001, page 8, states in part:

The State may not claim enhanced funding under Title IV-E for activities related to the following:

- Equipment repair or maintenance;
- Operational costs incurred prior to the completion of statewide operation;
- Workstation supplies;

- Contractor and State resources to support the system's operation once post-pilot conversion begins (e.g. help desk activities, system enhancements, warranty work, or maintenance agreements); and
- Administrative costs, which are otherwise considered operational, such as those related to office space, office equipment, telephones, furniture, or supplies.

The department's inability or unwillingness to follow federal guidelines could result in lost federal revenue to the state or could result in the state having to refund federal funds that were spent inappropriately.

In addition to the problems noted in this finding, management did not have adequate internal controls during the purchase and installation of the equipment, which resulted in the department not having an accurate accounting of the equipment. These problems are discussed in more detail in finding 3.

Recommendation

The Commissioner should ensure that all noncompliance with federal regulations is corrected, any inappropriately used federal funds are returned immediately, and determine who is responsible for these significant violations of federal regulations and take appropriate disciplinary action.

The Assistant Commissioner of Fiscal and Information Systems and the Director of Information Systems should become familiar with SACWIS regulations and ensure that these regulations are followed. Blame for the many problems noted with the Title IV-E funded equipment should not be shifted down to personnel below the management level when it is apparent that management has made the decisions on every aspect of this project. A cost allocation plan should be developed to properly reflect the usage of the equipment, and no further purchases should be made without the intent to comply with federal requirements for cost allocation. Once a cost allocation plan has been developed, the department should implement the plan retroactively and refund the federal government for the misuse of Title IV-E funds. The amount of depreciation costs charged to the department for the unused servers should be refunded to the federal government. The department should return to the federal government the difference between the regular federal financial participation rate and the funds that were inappropriately drawn at the enhanced federal financial participation rate. In the future, the department should not purchase equipment until it can be installed and placed into operation in a timely manner.

Management's Comment

We concur in part. First, the issue stating, "the department did not have any internal controls in place during the purchasing and installation of equipment," and the issue of equipment

located at the Local Government Data Processing warehouse in Columbia, Tennessee have been addressed in the response to Finding #3. In addition, the department concurs with the part of the finding that relates to the equipment stored at the CSAs for a year and a half without being placed in use. The equipment was Sun Servers which were purchased for training and which the department is currently using for that purpose.

Second, the Advanced Planning Document submitted to the federal government, though approved, was in error when indicating how costs for equipment were to be allocated. An updated cost allocation plan for the equipment is being developed that will more accurately reflect the intent of the programs functions and, therefore, the use of equipment. Subsequent to the audit, discussions with the federal government's representatives, as part of the current cost allocation methodology being developed to address this issue, have indicated to the department that programs benefiting from the development of TnKids could be funded by Title IV-E and SACWIS as long as the benefit was secondary to the primary functionality developed for SACWIS requirements. After federal approval, any future Title IV-E funded computer purchases will have to be consistent with the cost allocation plan currently being developed and a retroactive approval will be requested for the initial purchases of equipment.

Third, through approvals of the submitted Advanced Planning Documents, federal staff approved the "early roll-out" of Title IV-E funded equipment contingent on the approval of a final implementation APD for the entire SACWIS project. The purpose for the early roll-out was not to capture soon-to-expire enhanced funding, but rather to allow nearly 3100 proposed DCS staff throughout the state the opportunity to become accustomed to new computer technology and to employ office automation support as a part of the new departments early experience. The statement in the finding that some of this equipment was ultimately to be used for TnKids training is accurate. That equipment is now being used as the department begins its "initial" TnKids training in the pilot Southeast Region, however, the department concurs that this equipment shouldn't have been purchased two years in advance. (See Finding #22 for additional information concerning delays in the implementation of TnKids.)

Fourth, the finding that the department "charged expenditures at the enhanced federal financial participation rate that were not eligible to be paid at that rate" is accurate. All system costs were analyzed by information resources staff and submitted to the fiscal unit by a schedule indicating the cost center and grant to be used to record each transaction in STARS. The environment which allowed this type of accounting responsibility to be assigned to the information systems unit has been addressed. (Refer to Finding #1 and the department's response.) The department is currently developing policies and procedures to address situations throughout the department that should require participation by the fiscal unit in decision making situations. Costs incorrectly charged to the enhanced rate have been identified and will be adjusted on the required federal reports and on STARS.

Finally, questioning the total purchase amount indicates that none of the equipment was purchased and accounted for appropriately. This is not the case. Though the department acknowledges some non-compliance issues in the purchase and recording of equipment the majority of the funds utilized will be determined to be appropriately allowed by the federal government.

3. The department circumvented state purchasing policies and procedures and had no internal controls in place during the purchasing and installation of equipment purchased with federal funds

Finding

State purchasing procedures were circumvented when the department purchased \$11,013,744.31 of equipment with federal funds. See finding 2 for federal noncompliance issues related to this purchase. In addition, the department had no internal controls in place during the purchasing and installation of the equipment. Since 1996, the department has purchased equipment with Title IV-E funds. The majority of this equipment was purchased during fiscal years ended June 30, 1998, and June 30, 1997.

Review of purchase orders and corresponding invoices shows that equipment was ordered and/or received before purchase orders were generated or approved. For six purchase orders, which totaled \$6,083,532.07, vendor invoices showed that the equipment was ordered before the purchase orders were approved. Additionally, one vendor invoice showed that equipment was ordered and received by the department before the purchase order was approved.

At the time of the purchase, department personnel did not record essential information in the Property of the State of Tennessee system (POST), which identifies the equipment as federally funded, due to lack of training and proper supervision. Grant information (i.e., grant number and percentage of federal funds) was not entered into POST. The department must be able to distinguish between state and federally funded property, because federally funded property has restrictions on both the usage and disposal of property. By not entering the funding information into POST, the department could not identify specific items purchased with Title IV-E funds. Therefore, the department had no way of determining whether it was in compliance with federal regulations. In certain instances, the federal regulations require reimbursement for disposing of equipment acquired with federal funds. Without an accurate accounting for the equipment's funding, the department has no way to ensure that the federal awarding agency would be appropriately reimbursed when this equipment is disposed.

As of December 1998, the department was unable to provide a listing of equipment purchased with Title IV-E funds. The department attempted on two occasions to identify equipment purchased with Title IV-E funds. However, by performing testwork and analytical procedures, each listing was found to contain significant errors. We performed analytical procedures on all purchase orders identified as funded with Title IV-E. Nine of 36 purchase orders (25%) did not have the correct number of items entered on POST when compared with the number of equipment items ordered (purchase order) and received on the corresponding invoice. At least five items entered on POST referenced the wrong purchase order. Part of this problem results from the department's failure to follow proper purchasing procedures.

As noted in finding 2, the equipment was stored in a warehouse before it was installed in offices. Some equipment purchased between June and September 1996 was still stored at the warehouse in December 1998. This equipment has been stored in the warehouse for over two

years without being used by the department. When the equipment was installed across the state, the locations of the equipment were not entered into POST.

Information Resources staff did not consistently provide documentation to Administrative Services staff when new computer equipment was installed or when old equipment was moved from one location to another. Also, no procedures were in place to ensure that Administrative Services staff followed up when new computer equipment was purchased to ensure that detailed information was provided on installation of the equipment. This failure in internal controls, caused by lack of communication between department personnel, prevented personnel from updating the location of Title IV-E funded equipment in POST. The other weaknesses noted were:

- Forty-nine of 184 locations (26.63%) were incorrect on POST for equipment at the central office. In addition, fifty-six of 80 locations (70%) were incorrect on POST for equipment at the Community Services Agencies. These error rates were noted after the department was given a period of four months to correct the location errors.
- Nine of 80 equipment items tested (11.25%) did not have the correct description on POST.
- Seven of 184 equipment items (3.8%) costing more than \$1,000 were incorrectly charged to object code 099, which is Sensitive Minor Equipment costing \$1,000 or less.
- Eight duplicate tag numbers were found while testing equipment at the central office.

Therefore, the department does not have an accurate accounting for the \$11,013,744.31 in equipment and its location. Because of the seriousness of these weaknesses, a material weakness in internal control will be reported in the 1998 Tennessee Single Audit report.

Recommendation

The Commissioner should determine why the Assistant Commissioner of Fiscal and Information Systems is not familiar with state purchasing policies and, therefore, could not ensure these policies were followed. Blame for the many problems noted with the Title IV-E funded equipment should not be shifted down to personnel below the management level when it is apparent that management has made the decisions on every aspect of this project. Controls should be put into place to ensure that state purchasing procedures are followed and that all essential information is input into POST. POST should be corrected to include all equipment items purchased, the grant number and the federal financial participation rate for each item purchased with federal funds, and the correct location for each item.

Management's Comment

We concur in part. The department concurs that purchasing rules were “unintentionally” violated regarding the issuance of purchase orders prior to ordering and receipt of equipment during the formative months of the department.

All equipment was appropriately acquired through contracts established by the Department of General Services by utilization of the statewide contracts for procurement of computer equipment. The equipment was acquired through the Department of Finance and Administration's equipment revolving fund (Fund 15). Vendors were notified of the department's intent to purchase certain equipment so that availability by the vendor could be maintained. In a few instances, the vendor, on its own initiative, shipped the equipment prior to receipt of the purchase order. This occurrence was not due to the department's request for delivery prior to the receipt by the vendor of a purchase order.

During this process the Division of Information Resources had assumed the role of managing the movement of computer equipment. As information was received from Information Resources the POST system was updated to reflect location changes. As time progressed, it became evident these controls were not adequate. Movement of computer equipment was not being properly documented, nor forwarded to Administrative Services for entry into POST, and follow-up efforts by Administrative Services were inadequate. A major effort has been undertaken by the department to implement controls to completely change the department's inventory control system and prevent problems from recurring. This effort includes the correction of computer information which created discrepancies on the POST system, controls to assure that future purchases will be properly processed, and that funding information will be entered at the time the purchase order is generated.

Finally, questioning the total purchase amount indicates that none of the equipment was purchased and accounted for appropriately. This is not the case. Though the department acknowledges some non-compliance issues in the purchase and recording of equipment the majority of the funds utilized will be determined to be appropriately allowed by the federal government.

4. Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care

Finding

The Department of Children's Services does not have a reasonable system to determine medical treatment costs associated with providing services to children in the state's care. Children's Services purchases goods and services (such as room and board, treatment, and education) for eligible children. The department's current procedure for billing the TennCare program does not provide for a standard treatment rate for each level of care for the children in state custody. According to Medicaid/TennCare regulations, TennCare reimbursements must be

based on actual costs. If the department has not determined billing rates based on actual costs, the TennCare program may be overbilled, and other federal revenue (Title IV-E) may not have been maximized for room and board costs. The seriousness of Children's Services failure to ensure that the amounts billed to TennCare and passed along to the federal government complied with all federal laws, regulations, and guidelines will be reported as a material internal control weakness for the TennCare program in the 1998 Tennessee Single Audit report.

In 1991-92, a cost analysis study of all the treatment facilities providing services to Children's Services was performed by an independent contractor. As a result of this study, a percentage rate, which supposedly represented the treatment portion of the service, was determined for each individual facility. According to management of the department, they questioned the validity of the cost study, but decided to use these percentages to bill TennCare for the treatment portion. If a treatment facility was not included in the 1991-92 cost study, the department arbitrarily set a rate of 50% for the treatment portion of service. However, the percentage rates being used may not accurately reflect the portion of service which is treatment. In performing the testwork on the billing procedures, we found that the department is not following its own arbitrary guidelines. In 17 of the 25 billings tested (68%), the department had charged TennCare a larger percentage of the total amount paid to the provider than set by the department's guidelines. The department could not substantiate the rates being used. In many instances, the department was billing TennCare 90% to 100% of the total amount paid to the provider. However, the amount paid to the provider included room and board and education costs that should not be billed to TennCare.

Without a reliable system in place to identify medical treatment and room and board costs, the state may have overbilled the TennCare program for treatment and failed to maximize federal dollars for room and board costs in the Title IV-E program.

Recommendation

Management should become familiar with TennCare guidelines addressing the issue of allowable treatment costs. The department needs to implement a system for billing TennCare that includes a standard rate based on the level of care being provided. The rate should fairly represent the actual treatment portion of the care.

Management's Comment

We concur in part, however, the methodology the department is currently using to determine treatment costs billed to TennCare was developed during the implementation of the Children's Plan. The methodology was created in 1992 and has been in place since that time. This current billing methodology has been reviewed by HCFA representatives on at least two separate occasions. The department is, however, currently working on another cost and time study to develop more equitable and less complicated rates based on the recommendations made by the Comptroller's office. The new cost and time study (a similar study was performed in

1992) has been developed to mitigate the issues resulting from the first study and to address other inconsistencies. All providers are to participate in this new study and are to have information submitted supported by financial statements audited by an independent CPA firm. This effort is accompanied by a collaboration with TennCare staff to establish reasonable treatment rates for each level of service purchased by the department. The department anticipates the implementation of the results of the study during the next fiscal year.

5. The department did not process journal vouchers promptly, which resulted in approximately \$419,000 in lost interest income

Finding

As noted in the prior two audits, journal vouchers (used to record expenditure and revenue transactions between state departments) were not always processed promptly. Management concurred with the prior findings and stated that procedures would be developed to ensure that journal vouchers are processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18, "Journal Voucher - Type J." According to management, procedures were developed and implemented after the prior audit period. Management also stated in their prior year comments that the department's internal audit staff would be monitoring for compliance with Policy 18, but this monitoring has not been performed.

In spite of management's assertions during the prior audit, the department did not bill TennCare for targeted case management and administration costs in accordance with Policy 18 during the current audit period. The department did not bill TennCare for services rendered by Children's Services, totaling \$22,982,172.06, from July 1, 1997, through December 31, 1997, until March 3, 1998, as much as nine months after the initial expenditure was incurred. Because TennCare bills the federal government for approximately 50% (federal share) of these expenditures, the state lost approximately \$419,000 in interest on these funds. In addition, the state lost the use of these funds for up to twelve months. Also, 14 of 60 other revenue and expenditure journal vouchers tested (23.3%) were not processed promptly in accordance with Policy 18.

According to Policy 18, expenditure (paying) journal vouchers which total \$2,500.01 to \$350,000.00 should be processed within five working days of the receipt of the journal voucher. Revenue (billing) journal vouchers totaling \$2,500.01 to \$350,000.00 should be processed at least monthly, and those over \$350,000.00, within five working days after the expense/ expenditure is incurred.

Errors of this nature and magnitude could jeopardize the state's cash position. If journal vouchers are not processed promptly, the accounting records for the affected departments could be misstated. Also, failure to process journal vouchers in compliance with Policy 18 could affect the state's compliance with the federal Cash Management Improvement Act of 1990.

Recommendation

The Commissioner should determine why the Assistant Commissioner for Fiscal and Information Services and the Director of Fiscal Services did not establish procedures to ensure that journal vouchers were processed in accordance with the time requirements of the Department of Finance and Administration's Policy 18, as promised at the conclusion of the prior audit. Procedures should be established immediately to provide for regular monitoring of journal voucher processing to prevent mismanagement of this significance from occurring in the future. The internal audit division should review for compliance with these procedures and corrective action should be taken whenever the time requirements are not met.

Management's Comment

We concur, however, the department actually billed TennCare. TennCare entered batches in STARS for these journal vouchers in August 1998 after the required final approval was received on the interdepartmental agreement between the Department of Health and the Department of Children's Services in August. The following events delayed the processing of these journal vouchers until March. A major rewrite of the Department of Children's Services cost allocation plan for 1997-98 was undertaken at the request of management which included rebuilding over 33 cost allocation tables. The combination of cost allocation plan revisions, rebuilding the 33 tables and the development of a process to record federal administrative revenues in the appropriate cost centers were the major reasons for the delay. During discussions with TennCare about the billing process, it was determined a state plan amendment for the Department of Health would need to be sent to HCFA by TennCare. The state plan amendment dated June 30, 1998, was approved retroactive to April 1, 1998. All required approvals on the interdepartmental agreement were in place on August 14, 1998. The journal vouchers were processed by the Department of Finance and Administrations Division of Accounts on August 20, 1998. Fiscal staff are exploring ways to improve this process in the future.

The finding states that 14 of 60 expenditure journal vouchers were not processed promptly in accordance with Policy 18. Thirteen of those journal vouchers relate to billings by the Department of Education for the School Food and Nutrition program. A request has been sent to the Director of Accounts requesting ten days to process these type of journal vouchers due to the number of staff and the number of steps involved in the verification process, which is required for adequate support for the expenditure. The other journal voucher was submitted late by one of the Youth Developmental Centers due to ACA accreditation deadlines. Accounting staff at that Youth Development Center will be informed about the importance of adhering to the requirements of Policy 18.

In addition, the fiscal division of DCS is in the process of developing policies and procedures to address the Policy 18 compliance issue.

6. As required by law, fraud should be reported to the Comptroller of the Treasury immediately

Finding

The Department of Children's Services did not report an instance of employee fraud to the Office of the Comptroller of the Treasury. The Division of Internal Affairs for the Department of Children's Services conducted an investigation regarding alleged misuse of state property and misappropriation of state funds by a state employee. This investigation began on August 14, 1997, and concluded on November 18, 1997. The internal affairs case file showed that the employee had used state facilities, state tools, and state supplies to make repairs on non-state vehicles and furniture for his own personal gain. The employee had also removed state property from the facility without authorization. In addition, it was found that the employee approved time sheets which contained erroneous information. The employee was terminated on May 31, 1998, for gross misconduct. The case was turned over to the District Attorney by the department. At this time, no legal action on this case has been taken by the District Attorney. However, the department did not report the incident to the Comptroller of the Treasury. Section 8-19-501, *Tennessee Code Annotated* states:

It shall be the duty of any official of any agency of the state having knowledge of shortages of moneys of the state, or unauthorized removal of state property, occasioned either by malfeasance or misfeasance in office of any state employee, to report the same immediately to the Comptroller of the Treasury.

The statutory requirement to notify the Comptroller is to ensure a thorough independent investigation and an appropriate resolution of the matter.

Recommendation

The Commissioner should ensure that all instances or suspected instances of fraud are immediately reported to him and to the Comptroller of the Treasury. In addition, this responsibility should be assigned to one individual who has access to information regarding possible instances of fraud.

Management's Comment

We concur. To eliminate future occurrences of any delays in notification to the Comptroller's office the development of a policy has begun which will address the time frame for notification to the Division of Internal Audit by the Division of Internal Affairs. This notification is to be submitted in writing within 48 hours of the initiation of an investigation. After receipt of this notification by Internal Audit the Director will notify the Comptroller's office within a timely manner.

7. Failure to resolve disciplinary issues in a timely manner resulted in the inappropriate use of state and federal funds for administrative leave with pay

Finding

The Department of Children's Services did not resolve disciplinary issues within a timely manner. In three instances, employees of the department were put on administrative leave with pay while investigations into alleged wrongdoing were being conducted. These employees remained on administrative leave with pay for 1,247 hours, 1,316 hours, and 1,285 hours, for an average of eight and a half months each. Review of the investigation files and the employees' personnel files, revealed that in all three cases, sufficient evidence existed early in the investigation either to remove the employee from administrative leave with pay or to dismiss the employee. There were many consecutive months during each investigation when no action was taken to resolve the matter. Therefore, the employees were not reporting to work, but were being paid even after there appeared to be sufficient evidence at least to put the employees on administrative leave without pay until resolution of the disciplinary issues. Two of the employees were eventually terminated and the other employee was reassigned to different job duties.

One of the employees was investigated for not performing her job duties adequately. It was found that the employee had not performed her job duties satisfactorily and the employee was reassigned to different job duties. Another employee was investigated for falsifying her employment application by not including a previous employer on her application. The employee had been criminally charged with grand larceny from this previous non-state government employer. In addition, the employee took sick leave when she was arrested on these charges. This employee was eventually terminated. The third employee was investigated for misappropriation of state funds and misuse of state property; this employee was eventually terminated for gross misconduct. See finding 6.

Two of the employees' salaries were paid with federal program funds. Since these employees were not benefiting the program during the investigation, it does not seem reasonable that the department continued to use federal funds to pay their salaries. The programs charged are Title IV-E Adoption Assistance (\$487.98), Title IV-E Foster Care (\$10,163.16), Title IV-B (\$776.33), Social Services Block Grant (\$8,313.29), and Title XIX (TennCare) (\$18,072.76). These payments are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

According to management, the disciplinary process was not handled timely because there were problems scheduling due process hearings and because of the number of investigations occurring at the same time. By not acting in a timely manner to resolve the disciplinary issues, the department misused federal and state funds.

Recommendation

The Commissioner should take appropriate steps to ensure that investigations and due process hearings are held in a timely manner. Employees under investigation should be taken off of administrative leave with pay as soon as there is sufficient evidence. In addition, the Assistant Commissioner of Fiscal and Information Services should be instructed not to use federal funds to pay salaries while an employee is on extended administrative leave with pay.

Management's Comment

We concur. Efforts are being made to ensure that investigations and due process hearings are held in a timely manner for a department with over 3,000 employees. A departmental policy will be developed so the Director of Fiscal Services will be notified when staff are on administrative leave with pay. Steps will then be taken to ensure that federal funds are not used to pay salaries while an employee is on administrative leave with pay status. The Commissioner has encouraged staff to proceed with appropriate action based on the testimony of investigators rather than wait for the release of written investigative reports.

In at least 50% of the cases handled by the department a grievant doesn't obtain an attorney or other representative in a timely manner to allow the hearing to go forward at the time and date set. This results in numerous delays and continuances in an attempt to coordinate all individual's (the grievant, the grievant's attorney, and the department's representative) schedules and that of the hearing officer's docket. During this time placing an employee on leave without pay could be considered as "taking action" which the department feels in most cases would be improper until the culmination of the investigation. The department will, however, make every effort to complete all investigations in a timely manner.

8. Children's Services inappropriately requested and received reimbursement from TennCare for children in Children's Services locked facilities

Finding

As noted in the prior audit, Children's Services requested and received reimbursement from TennCare for medical expenditures on behalf of children who were not eligible for TennCare because they were in locked facilities. Since these locked facilities are a part of Children's Services, management is charged with the responsibility of knowing which children are in the department's youth development centers in their care. Management concurred with the prior finding and stated that "procedures are in place to identify and separate medical expenses for children in locked facilities (youth development centers) from those that are billed to TennCare." Management further stated that "medical expenses for children in youth development centers are currently not billed to TennCare."

In spite of management's assertions in the prior audit, these procedures are not effective in preventing the department from billing TennCare for children in youth development centers and detention centers—the department billed, and TennCare paid, \$176,099.39 for ineligible children during the current audit period.

According to *Code of Federal Regulations*, Title 42, Section 435, Subsections 1008 and 1009, delinquent children who are placed in correctional facilities or a facility operated primarily to detain children who have been found delinquent are considered to be inmates in a public institution and thus are not eligible for Medicaid (TennCare) benefits. The state, not the federal government, is responsible for the health care costs of adult and juvenile inmates in public institutions.

Children's Services is under contract with TennCare to determine the eligibility of children under its care. Children's Services has a responsibility not only to notify TennCare when these children are no longer eligible, but also to refrain from billing TennCare for services provided to ineligible children. However, based on testwork performed on the Children's Services audit and the TennCare audit, the department has not fulfilled its contractual responsibility and TennCare has not monitored these billings. The seriousness of TennCare's failure to ensure that these billings complied with all federal laws, regulations, and guidelines will be reported as a Department of Health material internal control weakness in the 1998 Tennessee Single Audit report.

Recommendation

The Commissioner should not allow TennCare to be billed for children in the department's locked facilities and should determine why the measures did not work as asserted during the last audit. He should instruct the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services to implement controls immediately to prevent the department from requesting reimbursement from TennCare for children who are in locked facilities. Children's Services fiscal office staff or knowledgeable program staff should review and approve invoices prior to payment to determine if the child receiving the services is eligible to receive assistance from TennCare.

Management's Comment

We concur. There are two types of reimbursement requests that would have been submitted to TennCare. One type is a residential treatment facility and the other would be medical expenses (doctors visits, pharmacy, etc). An attempt to control the reimbursement from TennCare for medical expenses noted in the prior audit for children in Youth Developmental and Detention Centers controls were implemented in late calendar year 1997. During the fiscal year 1997-1998 (during the current audit period), however, accounting staff inadvertently and incorrectly assigned residential contract numbers to some detention center contracts instead of a detention center contract number. This resulted in these contracts being funded as a residential

facility which would have been eligible for TennCare reimbursement. This category of expenses has been reimbursed to TennCare.

Resource Management and Contracts Administration staff have been informed of the contract numbering sequence to use for detention center contracts. Those contracts are not set up to be funded with TennCare. Controls are being developed to assist the department in properly accounting for expenses for youth development centers.

9. Children's Services' subrecipient monitoring system is inadequate

Finding

The department did not have all monitoring reports and did not examine audit reports as part of the monitoring process for its subrecipients. The department has contracted with the Department of Finance and Administration (F&A) to perform monitoring of the department's subrecipients. The contract requires the department to approve corrective action plans submitted by the subrecipient responding to audit findings from the monitoring reports. However, no one in the department has been reviewing the monitoring reports, approving corrective action plans submitted by the subrecipients, or taking any further action that may be deemed necessary by the program specialists.

Not only has the department not been approving corrective action plans, but in many cases, the department did not even have a copy of the monitoring report on file. Office of Management and Budget Circular A-133 states that a pass-through entity is responsible for monitoring the subrecipient's activities to provide assurance that the subrecipient administers Federal awards in compliance with Federal requirements. In addition, the circular states that the entity is to ensure that required audits are performed and require the subrecipient to take prompt corrective action on any audit findings. The department did have audit reports on file for subrecipients, but the personnel responsible for subrecipient monitoring did not have access to these reports. If the department does not have the monitoring reports and does not examine audit reports as part of the monitoring process, the department cannot ensure that its subrecipients are administering the federal awards in compliance with federal requirements.

The department could not provide five of 15 (33%) subrecipients' monitoring reports or corrective action plans for subrecipients monitored during the audit period. In addition, the department could not provide documentation indicating approval of the corrective action plans for eight of 15 subrecipients (53%) monitored during the audit period. Because of the seriousness of the internal control weaknesses associated with subrecipient monitoring, this will be reported as a material weaknesses in the 1998 Tennessee Single Audit report.

Recommendation

The Assistant Commissioner of Programs and the Director of Programs should establish a tracking system to ensure all monitoring reports have been received and are on file at the department. The tracking system should document the name of the person who is responsible for reviewing the report and whether the corrective action plan was submitted by the subrecipient. The tracking system should also document whether the corrective action plan was acceptable and the date the subrecipient was made aware of the acceptance or denial of the corrective plan. There should be periodic reviews of these tracking reports by someone in upper management to ensure that corrective plans are being received and reviewed.

Management's Comment

We concur. The department will take action to insure that monitoring reports are reviewed and that corrective action plans are submitted. Corrective action plans will be reviewed for appropriateness with documented notification made to the subrecipient of acceptance or rejection of the plan. Internal Audit shall obtain from the Department of Finance and Administration a listing of all monitoring activities scheduled and verify that the reports are received by the department.

10. **Since 1993 Children's Services still fails to collect overpayments; uncollected overpayments totaling at least \$1,225,133.76 are due from foster care and adoption assistance parents, and overpayments to other vendors are not determinable**

Finding

As noted in four previous audits, from July 1, 1993, to June 30, 1997, Children's Services still has uncollected overpayments due from foster care and adoption assistance parents, as well as indeterminable vendor overpayments. Management concurred with the prior audit finding and stated that formal written procedures would be drafted; that the remittance advice would be modified to include the current balance due, the department's address, and telephone number; and that letters would be sent to all foster care and adoption assistance parents who owe the department money. Formal written policies and procedures were finalized for adoption assistance and foster care parents; however, no policies and procedures for overpayments were noted for other types of vendors. The remittance advice was updated to include the above-mentioned information and letters were sent to foster care and adoption assistance parents who owed the department money. However, as of June 1998, the department's records indicated an outstanding accounts receivable balance for these parents totaling \$1,225,133.76, a decrease of only \$49,307.36 (3.9%) since August 1997. In addition, Children's Services continued to overpay foster care and adoption assistance parents during the audit period. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Some procedures have been implemented to help identify overpayments to foster parents. When a child is removed from a foster home, the Department of Children's Services' caseworker is supposed to enter this status change directly into the Children's Plan Financial Information System (ChipFins). If the information is not entered, payments will continue until the caseworker enters new foster home placement information. Therefore, if a child is removed from a foster home and placed into a residential facility, the foster parents in the original placement will continue to receive semimonthly foster care payments until the department is notified by the foster parent or caseworker of the overpayment. However, as noted in finding 13, status changes for foster children are not entered into ChipFins promptly, resulting in overpayments.

In addition to foster care and adoption assistance parents, vendors were also overpaid (see finding 11). Many of these overpayments were collected only because the vendor returned the original check or sent a refund to the state, not because the department's system detected these overpayments. The department's method of collecting identified overpayments is to reduce subsequent payments to the vendor until the balance is recovered. However, if the vendor does not receive subsequent payments, the department has no procedure in place to collect the overpayments. The accounts receivable balance for overpayments made to vendors could not be determined because complete information was not available from the department's computer systems.

During the audit period, Children's Services requested to write-off \$287,254.32 of uncollectible foster care overpayments made through the former foster care parents payment system. This request was denied due to the department's failure to follow the Rules of Department of Finance and Administration, Chapter 0620-1-9, "Policy and Procedure Governing the Write-Off of Accounts Receivable." As part of the justification for the write-off, the department stated in the memorandum to Finance and Administration that the vendors no longer had a relationship with the department. However, two of 25 foster care parents tested (8.0%) on the write-off list were active foster care parents. These foster parents had also been active prior to the write-off request and the department did not deduct the amounts owed out of their foster care payments. After further inquiry, auditors were told that no one in the department had checked to see if any of the vendors were active as of the date of the write-off request. The department also stated in their memorandum to Finance and Administration that the vendors did not reply to the letters sent to them. However, during our review, we found that some of the vendors had requested additional information concerning their accounts receivable balance. Therefore, there was additional correspondence with the vendors on file at the department, such as detailed listings of payments and dates. However, there was no evidence in the file to indicate that the department made any attempt to collect the receivable after the additional information was sent to the parent. The rules relative to write-off of accounts receivable specify that at least three documented attempts should be made to collect overdue accounts prior to any decision to write-off the account. Also, a final effort to collect the accounts should be made by the legal staff of the department. Children's Services had only two documented attempts to collect the accounts and the legal staff had made no effort to collect the accounts.

Recommendation

Accounts receivable write-offs should not be requested until all necessary collection attempts, including action by legal staff, are made in accordance with the Department of Finance and Administration, Chapter 0620-1-9, "Policy and Procedure Governing the Write-Off of Accounts Receivable." The Commissioner should determine who is responsible for submitting unverified accounts receivable write-off information to the Department of Finance and Administration and the Comptroller of the Treasury and take the appropriate disciplinary action. The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should ensure that staff determine the accounts receivable due from all vendors and take the appropriate measures to collect amounts due. Formal written procedures should be prepared and issued for overpayments made to vendors other than foster care and adoption assistance parents.

Management's Comment

We concur in part. It is true that the department has not developed policies and procedures for the collection of overpayments from vendors other than foster and adoption assistance parents, however, it has made policies and procedures available to all staff for the latter. The department has inherited numerous problems and is trying to address these as time permits while continuing to process daily transactions and handle immediate crises. The department continues to move toward a complete manual of fiscal policies and procedures.

The Fiscal Division prepares a monthly report of the requested ChipFins adjustments necessary to correctly reflect the location and, therefore, payments connected with foster children. This report identifies by county adjustments that result in overpayments. This report is utilized by the Fiscal Division to implement collection procedures and by the program staff to address case management that has resulted in the overpayment. The total dollar amount of ChipFins adjustment reports received from January 1998 through January 1999 amounts to approximately \$365,000 in overpayments. During this period there were on average 1673 DCS foster parents serving an estimated 3667 foster children. The total annual DCS foster care payments are about \$17 million at approximately \$1,350,000 monthly. This indicates that the total of the reported ChipFins adjustments received for 12 months is roughly equal to 2% of the annual DCS foster care payments (\$365,000/\$17,000,000).

An accounts receivable software package has been requested for use until the completion of the financial management phase of the TnKids system. This phase of TnKids has been approved and will be started immediately after the eligibility phase is completed which is expected to be completed in 6 months. The ChipFins system for foster care parents payments does show a balance due which is reduced for each pay period (50% of each of the two payments made monthly) by the amount recovered until the amount due from that individual foster parent is indicated to be zero. ChipFins is also used for adoption assistance parents with payments made once a month. Please see finding 13 for the department's efforts to eliminate overpayments to foster care parents by case file reviews.

The Information Resources staff, for fiscal year 1998-1999, developed a monthly report which is being sent to the Director of Regional Services to identify overlapping dates of service for foster care children and residential providers information concerning the location of a child. These reports are being distributed to the Regional Administrators to be reviewed (effective April 1999) and corrections made. Notification of any corrections are to be furnished to the fiscal office. At that point the fiscal division will take action to collect any overpayments.

The write-off issue resulted from a miscommunication between the Fiscal Director and accounting staff. The department will make every effort in the future to be sure instructions are clearly communicated. In addition, regarding the legal issue, the department will determine the action to be taken after the Department of Finance and Administration releases the final draft of its comprehensive accounts receivable policy. The department sees no benefit from developing a policy at this time which may be unnecessary after the issuance of this accounts receivable policy.

11. The department continues to issue duplicate payments and overpayments to vendors; \$185,288.52 was returned or refunded voluntarily by vendors

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, the Department of Children's Services issued many duplicate payments and overpayments to vendors for goods and services provided to children. During fiscal year 1998, vendors voluntarily made over 140 refunds totaling \$101,759.63 and returned 305 original checks totaling \$83,528.99. Management concurred with the prior audit finding and stated that computer system edit changes were made to certain programs and that accounting and receivable staff would be providing fiscal management information explaining why the original checks and refunds were being returned to the department. According to management, the edit changes were made to the residential, prevention, and wraparound programs in fiscal year 1998. Reports concerning returns of original checks were provided to fiscal management starting in fiscal year 1999. However, it does not appear that the corrective action taken by the department was timely or completely effective. While the total dollar amount of duplicate payments and overpayments is significantly lower than the total in prior findings, the total number of original checks returned increased. This suggests that the significant decrease in the total dollar amount was not due to the implementation of good internal controls. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

Examples of some of the duplicate payments and overpayments are as follows:

- Nineteen overpayments were made to a discount store.
- Twelve duplicate payments were made to a mail delivery service.
- Six overpayments were made to deceased vendors. Four of these payments were made to the same vendor over a two month period.

The duplicate payments for goods or services could not be precisely explained. Vendors may have unintentionally submitted claims twice; vendors may have resubmitted original claims because they had not received prompt payment; or two separate parties involved with securing goods and services for the child may each have submitted the claim, unaware the other party had already submitted the claim.

Implementing computer system controls would decrease duplicate payments and overpayments to vendors and reduce the staff time required to process refunds and cancel warrants.

Recommendation

The Assistant Commissioner of Fiscal and Information Systems should take appropriate measures to establish adequate internal controls that will eliminate duplicate payments and overpayments. These controls should include ongoing procedures and processes to monitor the effectiveness of the controls and to ensure appropriate compliance with control procedures.

In addition, responsibility should be assigned to a specific person to monitor the reasons why duplicate payments and overpayments are being made and take appropriate action to greatly reduce these payments. Computer edit checks should be developed for expenditures other than residential, prevention, and wraparound.

Management's Comment

We concur. It is important to point out that overpayments for 1997-98 are less than .05% of the budget for the department. There were a total of 73,214 warrants issued in 1998 and only 305 were canceled according to the finding. This represents .4% of the warrants issued. This is not to indicate that the department is not continuing to address additional improvements in this area but the amount in the finding is only .07% (\$185,288.52/241,579,013.95) of the department's total disbursements.

Beginning April 1999, comprehensive reports on canceled warrants and refund checks are being prepared by fiscal staff and shared with the Director of Fiscal Services on a regular basis. Analysis of these reports will indicate the areas that should be targeted for improvement and the type of action that should be taken. A request has been sent to Information Resources to establish a database program to help locate duplicate entries for TOPS/STARS invoices. This program would list the invoice number, date, vendor name and the amount of the invoice. As new invoices are entered the system would check for any duplicates based on the invoice number and/or the amount.

Auditor's Comment

It should be noted that the dollar amounts and number of refunds and returns in the finding only represent the known overpayments. The actual amount of overpayments that have not been returned by the vendors is unknown.

12. The department did not approve invoices of major medical vendors before payment was made, resulting in a voluntary \$281,145.47 refund from a major medical vendor

Finding

As noted in four previous audits, from July 1, 1993, to June 30, 1997, Children's Services did not adequately review the four major medical vendors' invoices for appropriateness, and these payments were not appropriately authorized by a state official. The only signature on an invoice was generally that of the physician, counselor, or nurse providing the service. Management concurred with the prior audit finding and stated that these four contracts ended on December 31, 1997. The vendor submitted invoices for services rendered prior to December 31, 1997, and the department paid these invoices with no approval or authorization by a state employee.

The purpose of the contracts with the four vendors was to provide services for medically fragile children who were not in state custody and who were not case-managed by departmental staff. The department did not require the vendors to prove denial of payment from any other source, such as a managed care organization (MCO) or a parent's private insurance, prior to payment. This control weakness resulted in one of the vendors receiving payments totaling \$281,145.47 from the department and from a MCO for the same services. This vendor discovered the duplicate payment and voluntarily refunded the money to the department. There were no controls in place at Children's Services to detect that the vendor had been paid by another source for the same services.

The initial payments to the vendor were at least partially funded with TennCare dollars. Therefore, TennCare paid for the same services twice, once through the MCO and then through Children's Services. As of December 1998, Children's Services had not performed the necessary research to determine the amount that should be reimbursed to TennCare. Consequently, Children's Services has held money that is rightfully due to TennCare for 12 to 18 months without making any effort to determine the amount reimbursable to TennCare.

Recommendation

The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should ensure that the necessary research is immediately performed to determine the amount of the refund due to TennCare. Future contracts should include language requiring proper documentation for verification and approval purposes. Future refunds should be researched and disposed of in a more timely manner. Any additional billings made by these vendors should be thoroughly researched and approved before payment is made.

Management's Comment

We concur. Research has been ongoing to determine the amounts to be refunded to TennCare concerning this vendor. Twenty-four refund checks represented in the finding (13 refunds returned to TennCare as of April 1999 and 11 remaining to be processed) have been received from this medical vendor. As of April 1999, the 13 refunds totaling \$45,334.76 have been returned to TennCare. As stated in the finding, the medical contract for this particular vendor ended on December 31, 1997. TennCare and the department's receivables staff are working to reconcile the processing of these 13 refunds. At this time, it is not known how long it will take to complete the reconciliation of these 13 refunds. There are 11 refunds remaining to be researched and sent to TennCare for processing. The department is dedicated to processing these remaining 11 refunds as timely as possible. There will also be a reconciliation process for those refunds. The department is currently developing approval processes for all contracts issued through DCS and will complete this process as timely as regular work schedules allow.

13. Status changes for foster children are still not processed promptly

Finding

As noted in four previous audits, which covered the period July 1, 1993, to June 30, 1997, status changes for foster children are not processed promptly, resulting in overpayments. Because of the seriousness of this weakness in internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report.

As stated in management's comments to the prior finding, the Children's Plan Financial Information System (ChipFins) database is now updated by the caseworkers when a child's foster care placement changes. However, when caseworkers do not enter placement changes in ChipFins before the next benefit payment cut-off date, payments will continue to be made to foster parents or vendors. If caseworkers do not enter the placement changes timely, they must submit change-in-status adjustment forms to the central office to correct the over- or underpayments. As indicated in management's comments to the prior audit finding, the department began preparing monthly reports which show the adjustment forms received, and the amount of the changes by caseworker. Starting in January 1998, the report was provided to central program staff as well as to the Regional Administrators for their review to determine why the changes are not being made timely by the caseworkers.

Adjustment forms for the time period January through June 1998 show that 615 adjustments were made, totaling \$248,822.40 in overpayments and \$19,792.73 in underpayments. The department paid the total amount of underpayments to the vendors. However, Children's Services could not determine, nor was it willing to take the time to calculate, the amount of collections it had received for the overpayments. Had the department properly accounted for these collections, this information would have been readily available and would not have taken extra time to complete. The inability of fiscal staff to determine collections made against

overpayments shows a complete lack of concern for proper accountability and disregard of monies owed the state.

Since the department started preparing and reviewing the monthly reports, the number of adjustments has decreased, but it appears that there is still a problem with status changes not being made timely by the caseworker.

Furthermore, this monthly report of adjustments shows when status changes were made late, but does nothing to determine if status changes should have been made, but were not. A review of case files by caseworkers' supervisors would be necessary to ensure that the caseworkers are preparing status changes accurately and timely.

Recommendation

The Assistant Commissioner for Program Operations should enforce the department's procedures to ensure caseworkers enter child placement information in ChipFins timely. These procedures should include a requirement that caseworkers' immediate supervisors examine case files regularly to ensure placement data is being entered into ChipFins accurately and timely. Management should follow up on these reviews to ensure they are being performed and take disciplinary action against caseworkers who fail to comply with the new procedures.

In addition, management should properly account for collections made against overpayments as a part of effective accounts receivable procedures.

Management's Comment

We concur, however, the department has made significant efforts to address this issue. Starting in March 1998 the Fiscal Division started tracking the number of status changes submitted to that office from field staff. This process was initiated after Internal Audit did an initial analysis for the period of January through September of 1997. This initial analysis was given to the Regional Administrators to indicate problem counties where this issue needed to be addressed more specifically. The report from the Fiscal Division has been provided to the Director of Regional Services and Internal Audit monthly. The Director of Regional Services has distributed this report to the Regional Administrators for follow-up action to address any indicated problems. Internal Audit has prepared three month trend analyses which are reported to the Director of Regional Services and the Deputy Commissioner. These three month analyses indicate that the status changes submitted to the Fiscal Division have dropped from \$81,700 in the three month period ending May 1998 to \$34,447 in the three month period ending November 1998. Adjustment reports will continue to be provided and the work of case managers monitored regularly. See Finding #10 for information concerning the department's accounts receivable software request.

In addition, the department now has case managers assigned to specific foster homes. Each of those case managers has the responsibility of data entry for each child entering or exiting the

assigned homes. It has been made apparent that timely data entry is a major job responsibility for this position and that disciplinary action will be and has been taken when a case manager is habitually late with data entry. A policy has been implemented that requires a 25% review of all case files per quarter per region. This would result in a 100% review over a 12 month period. At the time of the review the data included in the case file is to be checked against the data in ChipFins, CORS, and/or TnKids. This policy has an effective date of 1/11/99.

14. Controls over disbursements were still weak

Finding

As noted in four previous audits covering the period July 1, 1993, to June 30, 1997, Children's Services did not have sufficient controls to ensure that disbursements were properly processed. Management concurred with the prior finding and stated that senior management agreed to designate staff to identify DCS employees who will approve claims and invoices before they are submitted to the fiscal office. In the areas of residential and detention centers claims using Title IV-E funding, the approval process appears to be in place. However, designated approvers were not put in place for claims for foster care and child protective services funded with the Social Services Block Grant (SSBG) and Title IV-E. Problems included lack of supporting documentation, incorrect rates used, and insufficient approvals. Examples:

- Lack of Supporting Documentation - Children's Services does not maintain copies of foster care and adoption assistance contracts in the central office. Instead, the central office relies on information in the Children's Plan Financial Information System (ChipFins) to generate foster care and adoption assistance payments to vendors. Through testwork performed for the SSBG and Title IV-E sections, it was determined that the information in ChipFins is not always reliable or accurate (See finding 13).

For SSBG, twelve of 40 expenditures tested (30%) were not allowable based on the actual foster care contract; however, the information in ChipFins showed the expenditure as being allowable. Five did not have valid foster care contracts, and for seven the foster care contract did not provide for therapeutic bonus fees paid by the department. These payments, totaling \$2,130.07, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998. For the Title IV-E federal program, various problems were noted, such as:

- incorrect rates used to determine payment,
- payments not reimbursable under Title IV-E,
- incorrect number of days of service being paid to vendors, and
- payment not reasonable based on placement and goods or services received by the child.

These payments, totaling \$825.13, are included in the Schedule of Findings and Questioned Costs in the Single Audit Report for the year ended June 30, 1998.

- Insufficient Approval - Neither caseworker nor other knowledgeable party verified that goods or services had been provided to children before payments were made, and underlying records were not checked to ensure they reflect appropriate activities and allowable costs. This means that the department's central office paid vendor invoices with no knowledge that the invoices reflect actual expenditures. Because of the seriousness of this weakness in the department's internal controls, it will be reported as a material weakness in the 1998 Tennessee Single Audit report. For all 40 of the SSBG expenditures tested and 55 of 60 Title IV-E expenditures tested (91.6%), the receipt of goods or services was not verified, and underlying records were not checked to ensure they reflect allowable costs.

Effective internal controls are essential to account for government resources and to ensure that payments are appropriate. Management has the responsibility to institute control procedures that will ensure all transactions are properly authorized and supported. Management's responsibility for establishing effective internal controls includes effective supervisory review procedures to provide reasonable assurance that errors and irregularities will be detected timely. When there are no controls, payments may be made for goods or services that were not received.

Recommendation

The Commissioner should immediately determine why the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services did not take appropriate measures to strengthen the controls over the processing of all disbursements, as assured in the department's responses to the last audit. If the department intends to rely on ChipFins to process foster care and adoption assistance payments, procedures should be in place to ensure ChipFins' information is reliable and accurate. The Director of Fiscal Services should also ensure that proper supervisory approvals are obtained to minimize the likelihood of mistakes in processing transactions. The internal audit unit should continue to review the department's payment process to determine what changes need to be made to ensure that proper documentation exists for every payment.

Management's Comment

We concur. Program staff have been instructed and are cooperating in a review of all foster care contracts to make sure they are a valid and appropriate foster care contract based on current requirements. This corrective process began in early 1999 and will be completed by the end of this fiscal year for the foster care contracts funded with SSBG. As those foster care contracts are modified, fiscal staff are working to ensure they are correctly funded. A departmental policy has been developed for the review of all foster care contracts within a 12 month period which will also help facilitate the determination of contractual problems. This latter process will be occurring in conjunction with the SSBG process.

The Internal Audit Division, in conjunction with the Planning and Research Division have developed an authorization and approver process for a significant number of non-residential service contracts that are or will be part of the new network system. These controls were to have been implemented April 1999. The goal of the department is to have all claims go through an authorization and approval process before coming to fiscal for payment. After the April 1999 date, the Director of Fiscal Services is to be notified by payables staff of any claims for payment without a signed approval. Information concerning the lack of the required designated approvers signature will be accumulated and reported to management for appropriate corrective action.

Use of a standard claim process to insure that the rates paid agree with the rates contained in the designated contract was started in May of 1997 with improvements being made as determined necessary. We will continue to develop more adequate methods of controls for other contract payments.

In addition, please see the response to finding #13 for additional controls put in place for foster care contracts.

15. The department could not determine the location of children and their specific case and eligibility files in a reasonable period of time

Finding

The department could not determine the location of children and their specific case and eligibility files within a reasonable amount of time. The request for 75 case files for children receiving Title IV-E funds was made on August 3, 1998. It was six weeks later before all locations were provided and eight of the 75 locations provided (10.66%) were incorrect.

When the central office staff received the request for the locations of the 75 files, the list was emailed to the regional administrators. The central office staff chose this method as the most efficient way to locate the files, because the regional administrators are responsible for knowing this information. Because the location of the case files is not readily available at the central office, central office staff have to rely on field office staff across the state to determine where case files are located.

The purpose of having a centralized office is to organize and coordinate the efforts of the statewide department. This task could be more effectively performed if the central office had direct access to the location of the children and their case files. If the department's Comprehensive Operation and Review System (CORS) had correct information concerning the child's placement history, the information to locate the children and their files would be readily available. (See finding 22)

Recommendation

The central office should take responsibility for the location of all children in the system, as well as the location of all case and eligibility files. A system should be developed to give the central office on-line access to current, reliable information regarding the location of all children, their case files, and eligibility files. Caseworkers should be responsible for updating the information each time a child and the child's files are moved. Personnel in the central office should be able to access location information at any time without having to contact personnel in field offices across the state and wait six weeks to obtain needed information.

Management's Comment

We concur. The Internal Audit Division was and has been designated the contact between State Audit and the department. All files requested were given to that division for communication to the field for the location and delivery of files for review. A total of 186 files in 4 separate lists were requested from the DCS auditors and the TennCare auditors for review. The department will, however, work diligently in the future to locate requested files in a timely manner.

16. Revenue is not researched and transferred from deferred revenue in a timely manner

Finding

As noted in the prior two audits, the department's controls over the processing of deferred revenue do not ensure timely research and transfer of funds to the appropriate accounts. When some cash receipts are received, the proper accounting treatment is unclear. Therefore, these receipts are initially recorded in deferred revenue until Children's Services personnel can identify the purpose of the receipt and determine the proper accounting. Management concurred with the prior finding and stated that procedures were in place to identify and transfer items from deferred revenue within 30 days, and that there were no items in deferred revenue at that time. However, procedures were not put in place as stated in their prior comments, and the accounting records show that there were items in the deferred revenue account at the time of management's comment to the prior report. Many items remained in deferred revenue for over 90 days.

Twenty-four of 63 items tested (38%) were not transferred from deferred revenue into the appropriate accounts until 140 to 547 days after receipt. In addition, instead of forwarding checks made out to the Department of Health to that department, Children's Services staff deposited the checks and recorded the proceeds in their deferred revenue account. These payments were held from 140 to 239 days before being sent to Health.

In addition, the department incorrectly deposited child support payments made by parents and checks made out to other departments in the deferred revenue account. Voluntary child support payments should be recorded in the proper child's trust fund account within the department. Court ordered child support payments should be forwarded to the Department of Human Services (DHS). The time-lag between the date the child support payments were recorded in

deferred revenue and the date they were transferred to the DHS was from 76 to 248 days. For example, the department received seven court-ordered child support payments for one child totaling \$1,050.00 from November 1997 to May 1998. The total was transferred to DHS on July 6, 1998. Therefore, the DHS records would have shown the non-custodial parent as being eight months behind on their child support payments, because Children's Services did not send the checks to DHS as they were received. The delay in transferring court ordered child support payments to DHS has several implications. When DHS does not receive payment for court-ordered child support, collection letters are sent to the non-custodial parent. DHS also has the authority to petition the court to garnish wages from non-custodial parents who do not make child support payments.

Recommendation

The Commissioner should determine why the procedures were not developed and implemented and why he was told there were no items in deferred revenue when in fact, there were. The Commissioner should ensure that the Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services develop and implement procedures and controls to ensure that amounts recorded in deferred revenue are researched and transferred to the appropriate accounts in a timely manner. Checks made to other departments should be immediately forwarded to the appropriate department. Receipts for court ordered child support should be immediately forwarded to the Department of Human Services. Management should implement procedures, as they agreed to do during the last audit, to monitor the research and transfer activities, to determine the appropriateness of items deposited into deferred revenue, to ensure they are timely, and take corrective action if necessary.

Management's Comment

We concur. Prior to July 1998, the child support checks which should have been forwarded to the Department of Human Services were deposited by DCS receivables staff and recorded as deferred revenue. In July 1998, this practice was stopped. Receivables staff now forward all child support checks to the Department of Human Services and forward checks made to other departments to the appropriate department when received. Fiscal staff have been instructed by the Director of Fiscal Services to report on the usage of deferred revenue and subsequent transfers so this can be continually monitored.

17. Signature authorization forms were not properly approved

Finding

The Commissioner of the Department of Children's Services has not properly approved all the department's signature authorization forms. Signature authorization forms are required to be prepared by each state department and filed annually with the Department of Finance and Administration, Division of Accounts. These forms are used by the Division of Accounts to

ensure each department's accounting transactions are properly approved at the department level. The forms document the signatures of employees who are authorized to sign for the department head and fiscal officer, and the forms require the approval of the fiscal officer and department head.

All signature authorization forms for the Department of Children's Services on file at the Division of Accounts were not approved by the commissioner. Specifically, employees at the youth development centers rather than the commissioner approved the signature authorization forms, thereby approving themselves and others to sign as the department head of the Department, instead of the commissioner. Therefore, there is no assurance that accounting transactions have been approved as the commissioner intended.

Recommendation

The Commissioner and Fiscal Director should review and sign all signature authorization forms for the department, giving appropriate employees authority to sign the commissioner's and fiscal director's name and to approve the department's accounting transactions.

Management's Comment

We concur. This problem originated at the Youth Development Centers and Tennessee Preparatory School due to the fact that they needed two authorizing signatures, one being the fiscal officer and the other the superintendent. The fiscal officer would sign on the Budget/Fiscal line of the authorization form and the superintendent would sign on the Department Head line. Currently the Department of Finance and Administration has directed the department to have the Fiscal Director of the department sign on the Budget/Fiscal line and have the Commissioner sign on his designated line. This process has already been communicated to the Youth Development Centers and the Tennessee Preparatory School with the required forms currently being processed and returned to the fiscal office of the department.

18. The department has established improper employer-employee relationships

Finding

The Department of Children's Services has entered into contracts with community services agencies (CSAs) to assist in implementing various state programs, such as the Child Protective Service Program, Adoption Assistance Program, Foster Care Program, Juvenile Justice Services Program, and the Family Crisis Intervention Program. Through these contracts, CSA employees are directly supervised by state officials. The CSA organizational charts at the department show that there are 178 CSA employees who report to Department of Children's Services employees. Some of these CSA employees are secretaries for the department's regional administrative staff. These contracts appear to create "employer-employee" relationships between the department and these individuals.

The practice of allowing employees of non-state entities such as the community service agencies to report directly to Department of Children's Services officials/employees in carrying out what can be construed as state programs raises policy and legal issues. We do not believe that these situations should be accepted as a matter of policy. Additionally, it is unclear as to whether *Tennessee Code Annotated*, Section 37-5-315(2), completely insulates the state from legal liability. The code states: "This part shall not be construed as creating an employer-employee relationship between the department, the community services agencies or their contractors;..." This legal concern arises from a review of the factors commonly used in determining the existence of an employer-employee relationship. These factors include, most importantly, an entity's or individual's right to hire or fire and the right to control the performance of a job or work.

In addition, the state apparently has incurred additional cost by contracting with non-state entities to operate programs. Over the years, the CSAs have operated programs for various departments of the state. In addition to direct program costs, the CSAs have received funding from each state department to defray the costs of administration. These costs included the salaries and benefits of the executive director and fiscal officer, and costs of travel, supplies, and equipment used by the administrative staff.

Recommendation

The Department of Children's Services should not contract with community services agencies to establish what are, in effect, employer-employee relationships. Individuals who are in effect performing state services should be placed on the state payroll system through the proper hiring procedures. When appropriate, the department should establish either professional service or personal service contracts. The Department of Children's Services should consult with the Office of the Attorney General concerning the legal ramifications of such employer-employee relationships.

Management's Comment

We do not concur. The Attorney General expressed an Opinion No. 97-092 dated June 26, 1997. This opinion was requested by the department and a copy has been furnished to the Comptroller's office. We have determined that CSAs are state entities for the purposes of liability and provision of legal representation because of: (1) the clear legislative intent to regard Community Services Agencies as state agencies or instrumentalities; and (2) because they are operated by state government, receive appropriations from the state, and serve as a "conduit through which the state acts" to carry out public functions, citing *Hastings v. South Central Human Resources Agency*, 829 S.W. 2d 679, 682 (Tenn. App. 1991).

The opinion states that members of the CSA board are appointed pursuant to T.C.A. 37-5-305 to exercise important public functions, and accordingly are “state officials and thus state employees” for the purposes of the immunity provisions of T.C.A. 9-8-307 (h). State employee is also defined to include the employees of the CSA pursuant to the purpose of providing legal representation (T.C.A. 8-42-101 (3)(A)). The General Assembly has specifically provided the employees of the CSAs are state employees for purposes of the Claims Commission legislation. The four urban and eight rural Community Services Agencies are political subdivisions and instrumentalities of the state and are deemed to be “acting in all respects for the benefit of the people of the state in the performance of essential public functions” (AG Opinion No. 97-092, June 26, 1997), citing T.C.A. 37-5-304 (d).

Rebuttal

The fact that the Attorney General has determined that the CSAs are state entities does not change the fact that DCS employees should not be directly supervising CSA employees. DCS employees should not supervise CSA employees.

TRUST FUNDS

Our objectives in reviewing trust fund controls and procedures were to determine whether

- the department upheld its fiduciary duty to properly administer and account for trust funds held for children in state custody by ensuring expenditures were properly supported and revenues were credited to the trust fund accounts;
- trust fund transactions were properly recorded in the individual child’s account;
- an accounting was performed for each child on a monthly basis;
- refunds due to the Social Security Administration were returned in a timely manner; and
- the department reconciled the 1992 DHS trust fund balance to the 1992 STARS balance.

We interviewed key department personnel to gain an understanding of the department’s procedures for and controls over trust fund transactions for children in state custody. We reviewed supporting documentation and tested samples of trust fund transactions.

We determined that the department did not uphold its fiduciary duty to account properly for individual children’s trust funds. In addition, the department did not perform an accounting monthly for each child, nor did it make refunds to the Social Security Administration in a timely manner.

In addition to the findings, other minor weaknesses came to our attention which have been reported to management in a separate letter.

19. The department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts of children receiving federal benefits

Finding

The department did not uphold its fiduciary duty to properly administer and account for the trust fund accounts for children receiving federal benefits. The procedures for accounting for these accounts were clearly inadequate. The trust fund accounts consist mainly of money received from the U.S. Social Security Administration (SSA) for supplemental income, as well as payments received from parents, and U.S. Veterans' Administration, Miners, and Railroad benefits. The money in these trust fund accounts may be used to reimburse the state for expenditures made by the state on behalf of the child. However, these funds were not being properly accounted for by the state as evidenced by the following weaknesses.

- Management had not instituted formal written policies and procedures governing trust fund accounting. The current policies and procedures consist of informal memoranda that provide little guidance on accounting for trust funds; this has contributed to the many problems noted in the accounts.
- Management in the fiscal office did not perform reviews of trust fund accountings to ensure that the accountings were being performed properly. This lack of adequate oversight has also contributed to the many errors noted in the accounts.
- Management did not require the use of basic accounting techniques in preparation of trust fund accountings. The method used to record transactions was not always consistent. Some transactions were recorded individually and others were improperly grouped together and recorded as one transaction. For example, individual transactions appearing in the Statewide Accounting and Reporting System (STARS) may actually be the sum of several transactions that took place over a period of time, including transactions that occurred over more than one fiscal year. By grouping transactions together, it makes it very difficult to trace a single transaction and does not provide an adequate audit trail.
- Reconciliations were not performed between the total of the individual trust fund accounts and the total balance on STARS. This could not be done because monthly trust fund accountings for each child were not being performed by the department. Similarly, no reconciliation was performed to balance totals from automated clearinghouse (ACH) journal vouchers to the amounts keyed into the individual trust funds accounts. Therefore, there was no assurance that all the revenue received, in total, had been properly credited to the children's trust fund accounts.
- Individual trust fund accountings were not performed on a monthly basis as noted in finding 20.

- U.S. Veterans' Administration, Miners, or Railroad benefits that were received by the department for specific children were not recorded in individual trust fund accounts. Therefore, the department has no record of what Veterans' Administration, Miners or Railroad benefits it has received or for which children the benefits were received. When a child leaves state custody, he/she would not get any of the unspent Veterans' Administration, Miners or Railroad benefits since these benefits were never recorded in the individual accounts. In addition, the department does not apply any expenditures to Veterans' Administration, Miners, and Railroad benefits because it does not record the benefits received for a particular child in that child's trust fund.
- The department did not refund money due to the SSA in a timely manner when children left state custody. Auditors tested 29 trust fund accountings for children who were not in state custody or left state custody during the audit period. The department returned funds to SSA for 17 (58.6%) of these children more than sixty days after the children left state custody. The Michael B. court settlement, Section III, part 8(b) states in part that the Social Security Administration is "to require state defendants to provide a final accounting and return any excess benefits received on a child's behalf to SSA within 60 days of the child's release from state custody without the necessity of a prior request for such action by SSA."
- When the Children's Plan was formed in 1992, the individual trust fund records were transferred from the Department of Human Services (DHS) to the Office of Children's Services Administration, then located in the Department of Finance and Administration. When DHS records were reconciled at June 30, 1992, the total of the individual trust fund accounts was approximately \$1.7 million less than the balance on STARS. For the last four years, Children's Services has been entering the old manual DHS trust fund records into the computer database. As of October 16, 1998, management believes that the department has resolved the difference between DHS records and the balance on STARS to \$1,586.86. However, no supporting documentation exists to give validity to this claim. As required by SSA regulations, the department made refunds to the SSA for benefits received on behalf of children who were no longer in state custody. It was noted that 75 of the refunds made by the department to the SSA, totaling \$139,345.53, were returned because the department did not furnish the appropriate information to SSA. Because of the lack of supporting documentation to substantiate the claim of the reduction, it cannot be determined as to whether the department has resolved the June 30, 1992, difference between DHS records and STARS.

In addition to the above, the following weaknesses concerning improper accounting for funds were noted during testwork on a sample of trust fund accountings:

- Twenty-nine trust fund accountings tested were for children who were not in state custody or left state custody during the audit period. The department returned funds to the SSA for 25 of 29 of these children (86.2%); however, the individual trust fund accounting records did not reflect the return of these funds.

- When a child's trust fund accounting is performed, an accountant begins with the ending balance of the previous accounting for that child. However, the department does not maintain a master file, either on paper or in computer form, of the individual accountings. We noted that there were paper copies and numerous computer files of individual accountings, with no procedures to indicate which is the master file. In addition, changes made to a child's previous accounting were not communicated to all people who have copies of the accounting. Sometimes the changes are made to the paper copy of the accounting and not made to the computer files. Therefore, when the next accounting is performed, an inaccurate ending balance from the previous accounting may be used as the beginning balance of the current accounting. By having numerous copies of accountings for each child, the risk of an error occurring in the accounting greatly increases, because the person doing the accounting cannot be sure the copy of the prior accounting being used is the most current.
- We tested ten trust fund accountings to determine whether all entries made during the audit period were supportable. Four of ten trust fund accountings tested (40%) for the audit period had errors noted in them. Two of the accountings had qualifying expenditures which were not applied to the child's trust account. One of the accountings had two amounts that were applied to the trust account that should not have been applied because Title IV-E funds were used to pay for the expenditures. One of the trust fund accounts exceeded the \$2,000 limit in April 1998; however, there was no evidence that the SSA had been notified or the excess had been refunded to SSA as required.
- Eleven of 60 trust fund accounting transactions tested (18%) were not properly accounted for in the child's trust accounting records. Six of the 11 trust fund transactions were handwritten changes to the paper copy of the accounting. However, the computer spreadsheets did not reflect these changes. Two of the 11 transactions represented interest that was reported on the Representative Payee Report, but did not appear on the child's accounting. One of the 11 transactions did not appear on the child's accounting and could not be traced to any information in the child's file. For one of the 11 transactions, the description on the journal voucher did not agree to the description on the accounting. One of the 11 transactions represented a Veterans' Administration pension payment received for a child. However, this payment did not appear on the child's individual accounting.

Recommendation

The Commissioner should ensure that the benefits received by the state for children in state custody are handled and accounted for properly. The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should ensure that formal written procedures are developed to facilitate the proper accounting for benefits received for children. Reviews of trust fund accountings should be performed to ensure the accountings are consistent, timely and properly prepared. Reconciliations should be performed to balance totals from ACH journal vouchers to the amounts keyed into the individual trust fund accountings. In addition, a reconciliation should be performed to balance the total individual trust accountings to STARS.

Income received from all sources, not just from the SSA, should be included in the children's accountings. When children leave state custody, the department should refund any remaining funds to the grantor agency within 60 days. Continuous accountings should be performed and all changes should be made to the master file. When a new accounting is started, the master file should be used to obtain the beginning balance of the trust fund. Basic accounting techniques should be used to ensure that all entries that affect an individual accounting are made appropriately in the accounting records.

Management's Comment

We concur. The department contracted with the Public Consulting Group in March 1999 to (1) analyze all departmental policies and procedures related to Social Security, Veterans Affairs, Miner's and Railroad Benefits transactions; (2) compare current practices to SSA regulations and the Michael B. consent decree requirements in order to determine compliance issues; and (3) develop recommendations for enhancing the department's operations. The results of this study would be used to implement a plan and schedule that will facilitate and support the department's decision making process for appropriate corrective actions. The report from the above consultant group is due by the end of fiscal year 1999. Additionally and in conjunction with this effort, fiscal staff are reviewing the trust activities to develop controls and proper basic accounting techniques for all entries that affect individual accounts in the trust fund records.

20. The accounting for the Social Security Administration trust funds is not done monthly for each child

Finding

As noted in the prior audit, Children's Services receives the Supplemental Security Income (SSI) benefits on behalf of children in state custody. These funds are held in trust for the children and can be used by the state to pay for "current and future" care of the child if the balance in the child's account (the child's available resources) does not exceed \$2,000. When a child's balance exceeds \$2,000, any subsequent SSI payments are required to be returned to the Social Security Administration (SSA). The SSI payments received and the expenses paid by the state for the care of the child are not recorded in each child's trust fund account monthly. Instead, the department only prepares an accounting when one is requested by a third party or when a child leaves state custody.

Management concurred with the prior audit finding and stated that the accounting for trust funds should be included in the comprehensive financial management component of TnKids. However, the financial management component of TnKids has not even been approved by the Management Advisory Committee. See finding 21. Management also stated they were flowcharting the trust fund process to allow the Commissioner to determine necessary staffing changes. The flowcharting has been completed. Management has stated that staffing changes will be made after the completion of an internal audit of trust funds.

An accounting shows the SSI payments received, expenses made for a child's care, and the cumulative monthly balance. The Social Security Administration usually requests an accounting once every 12 months. Because the department is not recording receipts and expenses monthly and is not monitoring the child's account balance, the department does not use current SSI funds to pay for current expenses of the child's care. For example, the department returned \$3,872.00 for one child to SSA in May 1998 for SSI funds received after the child's account balance exceeded \$2,000. The account balance exceeded \$2,000 in January 1997 and was reported to SSA in December 1997 when an accounting was performed. The letter from SSA to the department states: "In 12/97 you reported to us that this child's account had been over the \$2,000 limit for the period 1/97 and continuing. This should have been reported back in 1/97 when the child's account originally went over \$2,000." The department incurred expenses for the child's care that could have been offset by \$2,645.66 of the SSI funds if the department had maintained the account monthly and returned the excess funds to SSA in January 1997. Therefore, the state used \$2,645.66 of state funds when SSI funds could have been used.

Recommendation

The Assistant Commissioner of Fiscal and Information Services and the Director of Fiscal Services should immediately ensure that receipts, interest, and expenses are recorded in each child's trust fund account monthly. Also, each month the department should review the account of each child receiving SSI payments to ensure that the state uses available SSI funds, instead of state funds, to pay for the child's care. This review could save the state from unnecessarily using state funds, and this savings could pay for the additional staff necessary to perform the monthly review. When the TnKids system is developed, the department should include these procedures as a part of the system processes.

Management's Comment

We concur. We agree that recording receipts and expenses to each child's trust fund account and using available SSI funds on a monthly basis is desirable. Information Resources has indicated that staff will be available in May 1999 to begin an analysis of a fiscal funding project. The funding project is to target the development of a funding and trust system which will combine these two functions. In addition, referring to the response for finding #1 of this audit, the department feels that staffing changes which have been implemented in response to that finding should place more emphasis on controls and support of this area of the Fiscal Division.

INFORMATION SYSTEMS

Our review of information systems included a follow-up to determine whether prior audit findings had been resolved. The objective of this review was to determine the controls over various computer programs and systems used by the department to accumulate information regarding children served and payments made for children.

We determined that the new TnKids computer system has not been implemented, that controls over computer programming and payment processing were not adequate, that the Client Operation and Review System did not ensure data integrity and user accountability, and that the department's disaster contingency planning needed improvement.

In addition to the findings, other minor weaknesses came to our attention; these have been reported to management in a separate letter.

21. Controls over computer programming used for payment processing are not adequate

Finding

As noted in the prior three audits covering the period July 1, 1994, to June 30, 1997, computer programming controls associated with the payment system are not adequate. Management concurred with each of these findings and stated that the department is developing TnKids to support all department functions, including a comprehensive financial management system.

The design and implementation of TnKids was started January 17, 1997, and completion was initially estimated to be April 1998. The expected implementation date was changed from April 1998 to August 1998 to December 1998. The first phase of the new system, which only involves the Southeast region, has now been scheduled for implementation in March 1999 with all other regions expected to be implemented by September 1999. The payment processing functions are to be included in the financial management system of TnKids. However, the financial management portion has not even been approved by the department's Management Advisory Committee. Therefore, there is no timetable for design and implementation of this very important portion of the system.

Until the financial management portion of TnKids is designed and implemented, programs written using dBase or Foxpro software will continue to allow a single user to modify the program, manipulate files, enter data, and prepare reports. Because of the seriousness of these inadequate computer controls, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Inadequate controls over computer programming used for payment processing decrease the probability that errors or irregularities will be identified in a timely manner and increase the risk that employees will be able to inappropriately manipulate data.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure adequate controls over computer programs are used for payment processing until the financial management portion of TnKids is working. Since there is no timetable for the financial management portion of the TnKids System, controls should be incorporated into the existing system and processes. Also,

the Commissioner should continue to work with the Office for Information Resources to ensure the design and implementation deadlines for the TnKids System are met. The financial management portion of TnKids should be made a high priority in the implementation of the TnKids System.

Management's Comment

We concur. The date of completion for the development of the TnKids system has been moved back to accommodate necessary changes resulting from elements that have become requirements due to changes in legislation, etc. In addition, the department is determined that this system be beneficial to the end user and provide accurate information concerning children. In this effort, staff from the field level to the central office have been involved in the development of the system. The department is verifying federal compliance requirements prior to implementation. The department continues to move forward and has approved the financial management phase for development (phase 2.3). See finding #10 for additional information about this phase of the systems development.

The medical payment system does not have adequate computer programming controls. Fiscal staff and Information Resources staff are working in conjunction to address this problem. It is anticipated these changes will be in place by the end of this calendar year. Fiscal staff continue to use the standard claim invoice system developed by Information Resources to process residential and prevention claims. This system provides better controls for the payment process by preventing users from modifying the programs or manipulating the files.

22. The new TnKids computer system has not been implemented and the CORS system currently in place still does not ensure data integrity and user accountability

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Client Operation and Review System (CORS), which records the profiles of children in state custody and matches these with the facilities providing care, does not ensure data integrity and user accountability. CORS contains information such as the child's placement history, family information, permanency plan, and assigned case manager; as well as monitors the status of children and identifies those who need to be reassigned to other facilities. In addition, CORS is the largest source of information for the Children's Plan Financial Information System (ChipFins). Management concurred with the prior finding and stated that CORS would be replaced with the implementation of TnKids, starting in December 1998. However, this date has been moved several times in the past and now is March 1999. Our review of CORS revealed the following weaknesses continue:

- A client's record can be created on the system multiple times because the system does not check for duplicate entries. Also, each new entry to CORS, even a duplicate entry, results in a matching new entry to ChipFins.

- Although access was generally limited to community service agencies (CSAs), any user at that CSA could add, change, or delete clients or information on clients.
- The adding, changing, or deleting of information was not logged. Therefore, identifying which user had added, changed, or deleted a record was impossible.
- Users of CORS were not required to change their passwords periodically, increasing the risk of unauthorized access to the system.
- CORS does not maintain sufficient information for proper foster care semiannual reporting, as required by the federal Department of Health and Human Services as of March 1998. Therefore, DCS has chosen to take a penalty each time the report is submitted rather than spend the time and money to gather the necessary foster care data required. Because the department has decided it is not cost effective to gather the information, the department has paid penalties on the March 1998 and September 1998 reports totaling approximately \$165,370.00.
- Problems noted with data integrity cause concern because data from CORS will eventually be transferred to TnKids, the new system on which the department is relying to correct many of the department's existing problems. If the information is not accurate or in some cases nonexistent in CORS, it will not be accurate in TnKids. The department has undertaken data cleanup efforts. However, these efforts do not appear to be effective. Eight of 65 master index summaries reviewed (12.3%) indicated incorrect child placement history. Also, no information for three of 61 children (4.61%) could be located in CORS, and a master index summary could not be generated for these children. Therefore, the central office does not have accurate information to determine the location of child-specific case and eligibility files as noted in finding 15.

These weaknesses lessen the department's assurance concerning data integrity and user accountability. Effective system management controls require procedures to prevent duplication of data, to reduce the risk of incorrect or invalid data, and to require periodic password changes. In addition, these management controls require appropriate access restrictions to clients' records and an audit trail of changes to client information.

Recommendation

The Commissioner should determine the reasons for the delays in implementing the new TnKids system.

The Director of Information Systems should, in consultation with the Office for Information Resources, ensure that the new TnKids computer system has the following capabilities:

- Has edits for duplicate or invalid data,
- Permits only authorized users to add, change, or delete client information,
- Provides a system log to record user activity and serve as an audit trail, and

- Requires periodic password changes to reduce the risk of unauthorized access.

The Assistant Commissioner for Fiscal and Information Systems should monitor the implementation of the new system to ensure that the above controls are built into the system. In the meantime, the department should instruct the regional administrators to take an inventory of all the children in their regions to ensure the accuracy of information in CORS before it is transferred into the new TnKids system.

Management's Comment

We concur in part. As noted in previous audits, the CORS system is not capable of supporting the controls noted above. This database (Oracle, release version 6.0) is no longer supported by the vendor and cannot be upgraded within the CORS programming structure. The department faced a November deadline for submitting the Automated Foster Care and Adoption Reporting System (AFCARS) for the reporting period of March through September, 1998. This submission was to include both Foster Care and Adoption components. The department made the decision to submit the Adoption component (approximately 300 children), but not the Foster Care component (over 10,000 children). This decision was based upon cost/benefit of correcting data deficiencies for purely reporting purposes. The AFCARS report for the period of October through March, 1999, is being submitted by the May 15 deadline. The Foster Care data has been entered and confirmed using federally-provided verification programs. The Adoption data is being finalized and will be confirmed using these same programs. We are within the error tolerance rates for all data elements and expect to be compliant for this and all subsequent reporting periods.

The department strongly concurs with the element of the finding that addresses the data integrity. The department has authorized a Data Quality Unit and the Commissioner has authorized the positions for this unit. Hiring staff for this unit has begun with the staff person in charge of the Data Quality Unit beginning employment with the department on April 16, 1999. The hiring of the remainder of the staff for this unit is considered a priority. The TnKids Data Conversion Plan requires trial conversions of actual data from CORS prior to a region being implemented. The data will then be reviewed by regional and data quality staff for the determination of quality weaknesses. (See the response to Finding #13 concerning current case file review policies.)

Concerning the recommendations regarding TnKids capabilities the department has incorporated in TnKids Release 2.1 (the first phase in development of the system) these capabilities. Certification of this fact can be obtained from the Quality Assurance unit of the Office for Information Resources. And finally, delays in the TnKids schedule for implementation are due only to the department's efforts to make the system of the highest quality possible.

23. Children's Services' disaster contingency plan needs improvement

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Children's Services' disaster plan needs improvement. Management concurred with the prior findings and stated that it had participated in the Office for Information Resources' (OIR) statewide disaster recovery plan and process. The department also does not have a business resumption plan to provide continuity of administrative, clerical, and operational functions in case its office and related work areas are damaged or destroyed. The potential for interrupted service and lost data increases significantly without an adequate contingency plan. In the event of an emergency or disaster, Children's Services would not be equipped to carry out day-to-day operations. No plans have been made for an alternate facility for communication or for computer-related activities.

Recommendation

The Commissioner should ensure that the Assistant Commissioner for Fiscal and Information Systems and the Director of Information Systems immediately develop and test a business resumption plan for the department. The plan should include, but not be limited to, relocation to a temporary site, provision for telephone and communications, and acquisition of office equipment, furniture, supplies, and forms necessary to carry out operations.

Management's Comment

We concur. Addressing the business resumption plan, the need for departments to develop such a plan is outlined in the current Executive Branch Strategic Plan developed by the Governor and his Cabinet. Children's Services is currently developing such a plan as a part of its overall strategic planning process. The development of this plan will be a significant effort, given that the department is physically located in multiple sites across the state and considering it must be coordinated with other state agencies such as TEMA, General Services, Personnel and Finance and Administration.

The finding accurately observes that the department participates in information systems disaster recovery plans related to OIR's central data center. In addition, the entire Local Area Network resource available to the department is now managed by OIR. All back-up and recovery procedures are incorporated into OIR's statewide plan. Daily, weekly, and annual back-ups complete with appropriate off-site storage of back-up media are managed by OIR. This will also be the case with TnKids, where the database and application servers will not only be managed by OIR, but also physically located at OIR's central data center. These processes will be imperative in any resumption of operations for the department if an emergency situation occurs.

**DEPARTMENT OF FINANCE AND ADMINISTRATION POLICY 20,
“RECORDING OF FEDERAL GRANT EXPENDITURES AND REVENUES”**

Department of Finance and Administration Policy 20 requires that state departments whose financial records are maintained on the State of Tennessee Accounting and Reporting System (STARS) fully utilize the STARS Grant Module to record the receipt and expenditure of all federal funds. Our testwork focused on whether

- appropriate grant information was entered into the STARS Grant Control Table upon notification of the grant award, and related revenue and expenditure transactions were coded with the proper grant codes;
- appropriate payroll costs were reallocated to federal award programs within 30 days of each month-end using an authorized redistribution method;
- the department made drawdowns at least weekly using the applicable STARS reports;
- the department had negotiated an appropriate indirect cost recovery plan, and indirect costs were included in drawdowns; and
- the department utilized the appropriate STARS reports as bases for preparing the schedule of expenditures of federal awards and reports submitted to the federal government.

We interviewed key personnel to gain an understanding of the department’s procedures and controls concerning Policy 20. We reviewed supporting documentation and tested samples of revenue and expenditure transactions. We also reviewed the Schedule of Expenditures of Federal Awards.

We determined that the department has improperly managed state cash by not charging the federal grant at the time the initial expenditure transactions are made.

In addition to the finding, other minor weaknesses came to our attention which have been reported to management in a separate letter.

24. The department has improperly managed state cash by not charging the appropriate federal grant at the time the initial expenditure transaction is made

Finding

As noted in three previous audits covering the period July 1, 1994, to June 30, 1997, the Department of Children’s Services pays expenditures with state dollars initially and later reallocates the expenditure to the appropriate federal grant, creating significant time lapses between disbursements of state funds and actual drawdowns of federal funds. As a result, the state is losing interest income on and the use of state money used to fund federal expenditures. Because of the seriousness of these inadequate cash management policies and procedures, a material weakness in internal controls will be reported in the 1998 Tennessee Single Audit report.

Management concurred with the prior finding and stated a new computer system was put into place that would facilitate the drawdown process. According to management, the new system has been put into place; however, the system will not completely eliminate the problems noted in the prior audit. Management also stated in the prior audit report that the proposed financial management system of TnKids would be needed to fund expenditures by each child from multiple grants based on different eligibility requirements. However, as stated in previous findings in this report, the financial management part of TnKids has not even been approved by the Management Advisory Committee and has no timetable for implementation. Management also stated in prior comments that it is evaluating the practicality of developing computer programs to improve the current processing until the implementation of TnKids. According to management, the evaluation determined that changes could be made to the system to improve the processing of drawdowns until the implementation of TnKids. However, these changes have not been made.

According to the Department of Finance and Administration's Policy 20, "Recording of Federal Grant Expenditures and Revenues," Section 20-02-203, all grant-related expenditure transactions must be coded to the appropriate grants at the time the initial transaction is recorded.

During testwork on the department's two major federal programs, the following was noted:

- Title IV-E - All 60 expenditures tested were charged to the federal grant from three to 46 days after the initial transaction was paid with state dollars.
- SSBG - Twenty-two of 40 expenditure items tested (55%) were charged to the federal grant from ten to 61 days after the initial transaction was paid with state dollars.

The Foster Care Title IV-E program requires child-specific eligibility, but the SSBG grant does not. However, until the department charges all grants at the time the transactions occur, it will have problems with all grants, child-specific or not, due to their methods of funding. This will in turn cause improper management of the state's cash.

Recommendation

The Assistant Commissioner for Fiscal and Information Systems should ensure policies and procedures are developed and implemented to improve the department's cash management activities. These policies and procedures should specifically provide for charging the appropriate federal grant at the time the initial transaction is recorded, as required by Policy 20. Also, monitoring procedures should be developed to ensure the above procedures are implemented. Since the financial management part of TnKids has no implementation timeline, the department should implement changes in its funding process immediately to better manage the state's cash.

Management's Comment

We concur. Information Resources has indicated that staff will be available in May 1999 to begin the analysis for the fiscal funding project. The fiscal funding project will greatly assist in the cash management process. In addition, minor computer improvements have been requested to the drawdown program which will be ranked as a small project when Information Resources staff are available before the end of this fiscal year. It is a priority for fiscal policies and procedures to be developed which will include cash management activities. Please see the response to finding # 20 for additional information.

OBSERVATIONS AND COMMENTS

TITLE VI OF THE CIVIL RIGHTS ACT OF 1964

Tennessee Code Annotated, Section 4-21-901, requires each state governmental entity subject to the requirements of Title VI of the Civil Rights Act of 1964 to submit an annual Title VI compliance report and implementation plan to the Department of Audit by June 30, 1994, and each June 30 thereafter. For the year ending June 30, 1998, the Department of Children's Services filed its compliance report and implementation plan on July 8, 1998.

Title VI of the Civil Rights Act of 1964 is a federal law. The act requires all state agencies receiving federal money to develop and implement plans to ensure that no person shall, on the grounds of race, color, or origin, be excluded from participation in, be denied the benefits of, or be subjected to discrimination under any program or activity receiving federal funds.

The State Planning Office in the Executive Department was assigned the responsibility of serving as the monitoring agency for Title VI compliance, and copies of the required reports were filed with the State Planning Office for evaluation and comment. However, the State Planning Office has been abolished. The Office of the Governor has not designated a new monitoring agency for the Executive Branch.

A summary of the dates state agencies filed their annual Title VI compliance reports and implementation plans is presented in the special report, *Submission of Title VI Implementation Plans*, issued annually by the Comptroller of the Treasury.

APPENDIX

DIVISIONS AND ALLOTMENT CODES

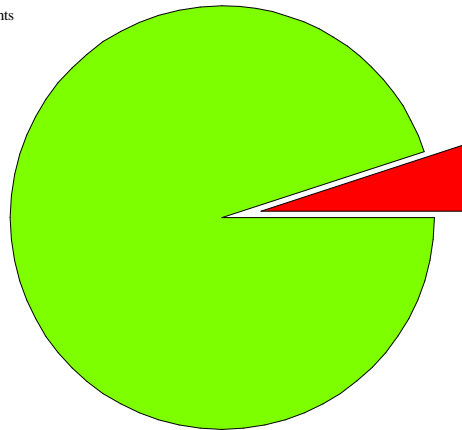
Department of Children's Services divisions and allotment codes:

- 359.10 Administration
- 359.20 Family Support Services
- 359.30 Custody Services
- 359.50 Child and Family Management
- 359.60 Wilder Youth Development Center
- 359.61 Taft Youth Development Center
- 359.62 Woodland Hills Youth Development Center
- 359.63 Mountain View Youth Development Center
- 359.65 Department of Children's Services Group Homes
- 359.70 Tennessee Preparatory School

General Fund Expenditures

Fiscal Year Ended June 30, 1998 (Unaudited)

\$7,026,457,342.23 (95.0%) Other departments



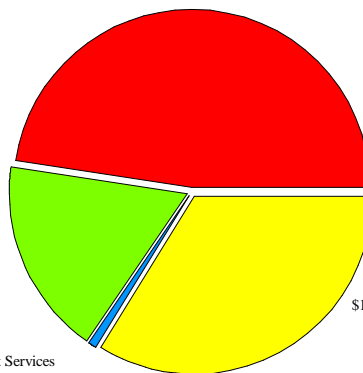
\$373,170,565.62 (5.0%) Children's Services

Source: Department of Children's Services

Funding Sources

Fiscal Year Ended June 30, 1998 (Unaudited)

\$66,586,009.73 (17.9%) Federal



\$177,567,700.00 (47.6%) Appropriations

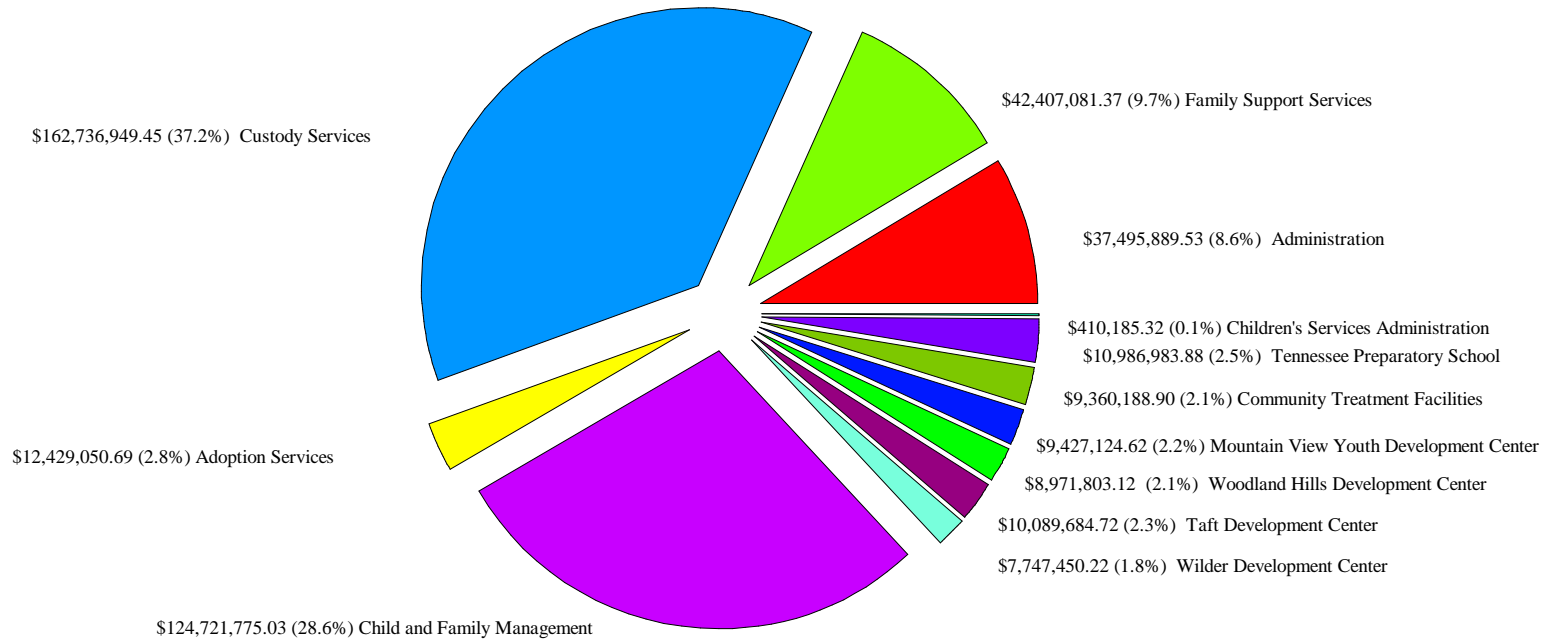
\$125,822,065.25 (33.8%) Interdepartmental

\$2,761,772.37 (0.7%) Current Services

Source: Department of Children's Services

Expenditures by Allotment and Division

Fiscal Year Ended June 30, 1998 (Unaudited)



Source: Department of Children's Services